



**Item From Council**  
**CITY OF AUSTIN**  
**RECOMMENDATION FOR COUNCIL ACTION**

**AGENDA ITEM NO.:** 41  
**AGENDA DATE:** Thu 12/02/2004  
**PAGE:** 1 of 1

**Item From Council**

**Posting Language:** Approve a resolution approving issuance by Northwest Austin Municipal Utility District No. 1 of its Unlimited Tax Refunding Bonds, Series 2004, in an amount not to exceed \$2,900,000; and approving a substantial draft of the proposed Bond Order and Preliminary Official Statement.

**Proposed meeting date:** THU 12/02/2004

**Sponsor:** Council Member Brewster McCracken

**Co-sponsor 1:**

**Co-sponsor 2:**

**Date by which the City Manager is requested to report back to Council:**

**Draft Resolution/Ordinance attached:**

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## MEMORANDUM

TO: Toby Futrell, City Manager

FROM: Rudy Garza, Acting Assistant City Manager/Budget Officer 

DATE: November 17, 2004

SUBJECT: Item 61; November 18, 2004, City Council Agenda  
Request from Northwest Austin MUD No. 1 for the City's consent to issue  
\$2,900,000 in Unlimited Tax and Revenue Refunding Bonds

Generally speaking, the issuance of debt by a political subdivision other than the City of Austin does not create a fiscal impact on the City's current approved fiscal year budget. Given the limited information received thus far, there is no apparent fiscal impact on the City's current Approved Budgets that would be created by the debt issuance transaction proposed by Northwest Austin MUD No. 1. However, this memorandum does not address or provide a determination as to whether the proposed issuance complies with the City's Investment Policies. Refer to the City Treasurer's memo associated with this item for information regarding the investment policies.

# DRAFT

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ORDER AUTHORIZING THE ISSUANCE OF \$2,900,000  
NORTHWEST AUSTIN MUNICIPAL UTILITY DISTRICT NO. 1  
UNLIMITED TAX REFUNDING BONDS, SERIES 2004;  
AWARDING THE SALE OF THE BONDS;  
AUTHORIZING THE LEVY OF AN AD VALOREM TAX  
IN SUPPORT OF THE BONDS;  
ENTERING INTO A PAYING AGENT/REGISTRAR AGREEMENT,  
A BOND PURCHASE AGREEMENT AND AN ESCROW AGREEMENT;  
APPROVING AN OFFICIAL STATEMENT; CALLING CERTAIN BONDS  
FOR REDEMPTION; AND OTHER MATTERS RELATED  
TO THE ISSUANCE OF THE BONDS

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**ORDER AUTHORIZING THE ISSUANCE OF \$2,900,000 NORTHWEST  
AUSTIN MUNICIPAL UTILITY DISTRICT NO. 1 UNLIMITED TAX  
REFUNDING BONDS, SERIES 2004; AWARDING THE SALE OF THE BONDS;  
AUTHORIZING THE LEVY OF AN AD VALOREM TAX IN SUPPORT OF THE  
BONDS; ENTERING INTO A PAYING AGENT/REGISTRAR AGREEMENT, A  
BOND PURCHASE AGREEMENT AND AN ESCROW AGREEMENT;  
APPROVING AN OFFICIAL STATEMENT; CALLING CERTAIN BONDS FOR  
REDEMPTION; AND OTHER MATTERS RELATED TO THE ISSUANCE OF  
THE BONDS**

THE STATE OF TEXAS	§
COUNTY OF TRAVIS	§
NORTHWEST AUSTIN MUNICIPAL UTILITY DISTRICT NO.1	§

**WHEREAS**, by Order of the Texas Water Commission dated March 16, 1988, the Northwest Austin Municipal Utility District No. 1 (the "District") was authorized to be created as a municipal utility district operating pursuant to Article 16, Section 59 of the Texas Constitution and Chapter 54 of the Texas Water Code, as amended; and

**WHEREAS**, the creation of the District was confirmed at an election held within the District on May 7, 1988 by a vote of 1 to 0 (the "Confirmation Election"); and

**WHEREAS**, at the Confirmation Election the voters of the District also authorized the issuance of bond in one or more issues or series in the maximum aggregate principal amount of \$21,110,000 maturing serially or otherwise, in such installments as are fixed by the Board of Directors of the District over a period or periods not exceeding forty (40) years from their date or dates, bearing interest at any rate or rates, and to sell the bonds at any price or prices, provided that the net effective interest rate on any issue or series of the bonds shall not exceed the maximum legal limit in effect at the time of issuance of each issue or series, all as may be determined within the discretion of the Board of Directors of the District, for the purpose or purposes of purchasing, constructing, acquiring, owning, operating, repairing, improving and extending a waterworks system, sanitary sewer system and drainage and storm sewer system for the drainage of lands within the District including, but not limited to, all additions to such systems and all works, improvements, facilities, treatment plants, equipment, appliances, interest in property and contract rights needed therefore and administrative facilities needed in connection therewith and organizational expenses, and to provide for the payment of principal of and interest on such bonds by the levy and collection of a sufficient ad valorem tax upon all taxable property within the District, all as authorized by the Constitution and laws of the State of Texas; and

**WHEREAS**, the City of Austin (the "City") has consented to the creation of the District and the issuance of bonds by the District pursuant to the terms and conditions of a Consent Agreement between the City and the District (the "Consent Agreement"); and

**WHEREAS**, the City has approved the issuance of the bonds hereinafter authorized on \_\_\_\_\_, 2004, in accordance with the Consent Agreement; and

**WHEREAS**, the District has previously issued its Unlimited Tax Bonds, Series 1997 in the aggregate principal amount of \$1,400,000 (the "Series 1997 Bonds") and its Unlimited Tax Bonds, Series 1999 in the aggregate principal amount of \$1,900,000 (the "Series 1999 Bonds"); and

**WHEREAS**, the District now desires to refund the Series 1997 Bonds maturing on September 1 of each of the years 2005 through 2018 in the aggregate principal amount of \$1,130,000 (the "Series 1997 Refunded Bonds") and the Series 1999 Bonds maturing on September 1 of each of the years 2007 through 2017 and 2020 in the aggregate principal amount of \$1,500,000 (the "Series 1999 Refunded Bonds") (collectively, the "Refunded Bonds"); and

**WHEREAS**, all of the Refunded Bonds mature or are subject to redemption prior to maturity within 20 years of the date of the bonds hereinafter authorized;

**WHEREAS**, the bonds hereinafter authorized are being issued and delivered pursuant to Chapter 1207, Texas Government Code, as amended ("Chapter 1207"); and

**WHEREAS**, Chapter 1207 authorizes the District to issue refunding bonds and to deposit the proceeds from the sale thereof, together with any other available funds or resources, directly with a place of payment (paying agent) for the Refunded Bonds or eligible trust company or commercial bank, and such deposit, if made before such payment dates, shall constitute the making of firm banking and financial arrangements for the discharge and final payment of the Refunded Bonds; and

**WHEREAS**, Chapter 1207 further authorizes the District to enter into an escrow agreement with respect to the safekeeping, investment, reinvestment, administration and disposition of any such deposit, upon such terms and conditions as the District and such escrow agent may agree, provided that such deposits may be invested and reinvested in Defeasance Securities, as defined herein; and

**WHEREAS**, the Escrow Agreement hereinafter authorized, constitutes an agreement of the kind authorized and permitted by Chapter 1207; and

**WHEREAS**, the Board of Directors of the District deems it advisable to refund the Refunded Bonds in order to achieve a net present value debt service savings of approximately of \$ \_\_\_\_\_ and an overall savings debt service savings of approximately \$ \_\_\_\_\_; and

**WHEREAS**, the District deems it appropriate that the Series 1997 Refunded Bonds and the Series 1999 Refunded Bonds be called for redemption on December 31, 2004 and September 1, 2006, respectively, at a redemption price of par, respectively, plus accrued interest to the date of redemption.

**THEREFORE, BE IT ORDERED BY THE BOARD OF DIRECTORS OF THE NORTHWEST AUSTIN MUNICIPAL UTILITY DISTRICT NO.1:**

**Section 1. AMOUNT AND PURPOSE OF THE BONDS.** The Board of Directors of the District hereby incorporates the recitals set forth in the preamble hereto as if set forth in full at this place and further finds and determines that the recitals are true and correct. The Unlimited Tax Refunding Bonds, Series 2004 (the "Bonds") of the District are hereby authorized to be issued and delivered in the aggregate principal amount of \$2,900,000 to refund the Refunded Bonds and to pay certain costs of issuing the Bonds.

**Section 2. DEFINITIONS.** In addition to other words and terms defined in this Order (except those defined and used in the Form of the Bonds in Section 6), and unless a different meaning or intent clearly appears in the context, the following words and terms shall have the following meanings, respectively:

"Accreted Value" shall mean, with respect to a Premium Compound Interest Bond, as of any particular date of calculation, the original principal amount thereof, plus all interest accrued and compounded to the particular date of calculation, as determined in accordance with Section 4 hereof and the schedule attached hereto as Exhibit E.

"Board of Directors" means the governing body of the District.

"Bonds" means the Northwest Austin Municipal Utility District No. 1 Unlimited Tax Refunding Bonds, Series 2004, issued and delivered pursuant to this Order and all substitute bonds and bonds exchanged therefor, as well as all other substitute bonds and replacement bonds issued pursuant hereto, and the term "Bond" shall mean any of the Bonds.

"Bond Fund" means the fund by such name described in Section 9(c) hereof.

"Bond Order" or "Order" means this Order of the Board of Directors authorizing the issuance of the Bonds.

"Code" means the Internal Revenue Code of 1986, as amended.

"Current Interest Bonds" means the Bonds maturing on September 1 in each of the years 2008 through 2020, inclusive, paying interest semiannually, in the aggregate principal amount of \$\_\_\_\_\_.

"Defeasance Securities" means (i) Federal Securities, (ii) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date the Board of Directors adopts or approves proceedings authorizing the issuance of refunding bonds or otherwise provide for the funding of an escrow to effect

the defeasance of the Bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent, and (iii) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that, on the date the Board of Directors adopts or approves proceedings authorizing the issuance of refunding bonds or otherwise provide for the funding of an escrow to effect the defeasance of the Bonds, are rated as to investment quality by a nationally recognized investment rating firm no less than "AAA" or its equivalent.

"District" means the Northwest Austin Municipal Utility District No. 1.

"Escrow Agent" means JPMorgan Chase Bank, N.A. or any successor escrow agents under the Escrow Agreement.

"Escrow Agreement" means the agreement by and between the District and the Escrow Agent relating to the defeasance of the Refunded Bonds.

"Escrow Fund" means the fund by such name described in Section 9(d) hereof.

"Federal Securities" means direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America.

"Issuance Date" means December 30, 2004, or such other date of delivery of the Bonds to the initial purchaser or purchasers thereof against payment therefor.

"MSRB" means the Municipal Securities Rulemaking Board.

"Net Revenues" means all income or increment which the District receives in connection with the System, less such portion of such revenue income as reasonable may be required to provide for the administration, efficient operation, and adequate maintenance of such improvements and facilities, and less that portion thereof derived from contracts with other persons, including private corporations, municipalities and political subdivisions, which, under the terms of the authorizing resolutions, may be pledged for the requirements of the District's revenue bonds issued particularly to finance the facilities needed in performing any such contracts.

"NRMSIR" means each person whom the SEC or its staff has determined to be a nationally recognized municipal securities information repository within the meaning of the Rule from time to time.

"Operating Fund" means the fund by such name described in Section 9(b) hereof.

"Paying Agent/Registrar" means JPMorgan Chase Bank, N.A., Dallas, Texas and such other bank or trust company as may hereafter be appointed in substitution therefor or in addition thereto to perform the duties of Paying Agent/Registrar in accordance with

this Order.

“Premium Compound Interest Bonds” means the Bonds on which no interest is paid prior to maturity, maturing in various amounts on September 1 in each of the years 2005 through 2008, inclusive, in the aggregate principal amount of \$\_\_\_\_\_.

“Previously Issued Bonds” means the Series 1997 Bonds, the Series 1998 Bonds, the Series 1999 Bonds, and the Series 2001 Bonds.

“Purchaser” means the initial purchasers named in Section 12 hereof.

“Rule” means SEC Rule 15c2-12, as amended from time to time.

“SEC” means the United States Securities and Exchange Commission.

“Series 1997 Bonds” means the bonds previously issued by the District entitled “Northwest Austin Municipal Utility District No.1 Unlimited Tax Bonds, Series 1997” in the aggregate principal amount of \$1,400,000.

“Series 1998 Bonds” means the bonds previously issued by the District entitled “Northwest Austin Municipal Utility District No.1 Unlimited Tax Refunding Bonds, Series 1998” in the aggregate principal amount of \$3,924,230.90.

“Series 1999 Bonds” means the bonds previously issued by the District entitled “Northwest Austin Municipal Utility District No.1 Unlimited Tax Bonds, Series 1999” in the aggregate principal amount of \$1,900,000.

“Series 2001 Bonds” means the bonds previously issued by the District entitled “Northwest Austin Municipal Utility District No.1 Unlimited Tax Bonds, Series 2001” in the aggregate principal amount of \$5,710,000.

“SID” means any person designated by the State of Texas or an authorized department, officer, or agency thereof as, and determined by the SEC or its staff to be, a state information depository within the meaning of the Rule from time to time.

“System” means the waterworks and sewer system providing services to land within the District, together with any additions and extensions thereto and improvements and replacements thereof wheresoever acquired or constructed including rights of the District in any waterworks and sewer system owned by others; provided that the System shall not include facilities acquired or constructed to perform contracts between the District and other persons, including private corporations, municipalities and political subdivisions, which are financed by proceeds of the District's revenue bonds issued particularly to finance facilities needed to perform such contracts.

**Section 3. DESIGNATION, DATE, DENOMINATIONS, NUMBERS, PRIOR REDEMPTION AND MATURITIES OF BONDS.** Each Bond issued

pursuant to this Order shall be designated "NORTHWEST AUSTIN MUNICIPAL UTILITY DISTRICT NO. 1 UNLIMITED TAX REFUNDING BOND, SERIES 2004" and initially there shall be issued, sold and delivered hereunder fully registered Bonds, without interest coupons, with the Bonds being dated December 1, 2004 in the respective denominations and principal amounts hereinafter stated, being numbered consecutively from R-1 upward with respect to the Current Interest Bonds and CR-1 upward with respect to the Premium Compound Interest Bonds (except the initial Bonds delivered to the Attorney General of the State of Texas which shall be numbered T -1 upward with respect to the Current Interest Bonds and TC-1 upward with respect to the Premium Compound Interest Bonds), payable to the respective initial registered owners thereof (as designated in Section 12 hereof), or to the registered assignee or assignees of said Bonds or any portion or portions thereof (in each case, the "Registered Owner"). and, unless redeemed prior to their respective maturities as provided herein, the Current Interest Bonds shall mature and be payable serially on September 1 in each of the years and in the principal amounts, respectively, as set forth in the following schedule:

<u>Maturity</u>	<u>Principal Amount</u>	<u>Maturity</u>	<u>Principal Amount</u>
2008		2015	
2009		2016	
2010		2017	
2011		2018	
2012		2019	
2013		2020	
2014			

The Premium Compound Interest Bonds shall mature and be payable on September 1, in each of the years and in the respective aggregate principal amounts and aggregate payments at maturity, respectively, as set forth in the following schedule:

<u>Year</u>	<u>Principal Amount</u>	<u>Payment at Maturity</u>
2005		
2006		
2007		

The District reserves the right to redeem the Bonds as more fully described in the FORM OF BOND set forth in Section 6 of this Order.

**Section 4. INTEREST.** The Current Interest Bonds shall bear interest calculated on the basis of a 360-day year composed of twelve 30-day months from the

dates specified in the FORM OF BOND set forth in this Order to their respective dates of maturity at the following rates per annum:

<u>Year</u>	<u>Rate</u>	<u>Year</u>	<u>Rate</u>
2008		2015	
2009		2016	
2010		2017	
2011		2018	
2012		2019	
2013		2020	
2014			

The Premium Compound Interest Bonds scheduled to mature on the dates, respectively, set forth below shall bear interest from the dates and calculated on the basis provided in the FORM OF BOND set forth in this Order, at the following rates per annum:

<u>Year</u>	<u>Interest Rate</u>	<u>Yield to Maturity</u>
2005		
2006		
2007		

Reference is hereby made to Exhibit E hereto, which sets forth the rounded original principal amounts at the Issuance Date for the Premium Compound Interest Bonds and the Accreted Value thereof, plus the initial premium (per \$5,000 payment at maturity) as of each March 1 and September 1, commencing March 1, 2005, and continuing until the final maturity of the Premium Compound Interest Bonds. The Accreted Value with respect to any date other than a September 1 or March 1 is the amount set forth on Exhibit E with respect to the last preceding September 1 or March 1, as the case may be, plus the portion of the difference between such amount and the amount set forth on Exhibit E with respect to the next succeeding September 1 or March 1, as the case may be, that the number of days (based on 30-day months) from such last September 1 or March 1, as the case may be, to the date for which such determination is being calculated bears to the total number of days (based on 30-day months) from such last preceding September 1 or March 1, as the case may be.

**Section 5. CHARACTERISTICS OF THE BONDS.** (a) Registration, Transfer, Conversion and Exchange: Authentication. The District shall keep or cause to be kept at the designated office for payment of JPMorgan Chase Bank, N.A. (the "Paying Agent/Registrar") in Dallas, Texas books or records for the registration of the transfer, conversion and exchange of the Bonds (the "Registration Books"), and the District

hereby appoints the Paying Agent/Registrar as its registrar and transfer agent to keep such books or records and make such registrations of transfers, conversions and exchanges under such reasonable regulations as the District and Paying Agent/Registrar may prescribe; and the Paying Agent/Registrar shall make such registrations, transfers, conversions and exchanges as herein provided. The Paying Agent/Registrar shall obtain and record in the Registration Books the address of the registered owner of each Bond to which payments with respect to the Bonds shall be mailed, as herein provided, but it shall be the duty of each registered owner to notify the Paying Agent/Registrar in writing of the address to which payments shall be mailed, and such interest payments shall not be mailed unless such notice has been given. To the extent possible and under reasonable circumstances, all transfers of Bonds shall be made within three business days after request and presentation thereof. The District shall have the right to inspect the Registration Books during regular business hours of the Paying Agent/Registrar, but otherwise the Paying Agent/Registrar shall keep the Registration Books confidential and, unless otherwise required by law, shall not permit their inspection by any other entity. The Paying Agent/Registrar's standard or customary fees and charges for making such registration, transfer, conversion, exchange and delivery of a substitute Bond or Bonds shall be paid as provided in the FORM OF BOND set forth in this Order. Registration of assignments, transfers, conversions and exchanges of Bonds shall be made in the manner provided and with the effect stated in the FORM OF BOND set forth in this Order. Each substitute Bond shall bear a letter and/or number to distinguish it from each other Bond.

An authorized representative of the Paying Agent/Registrar shall, before the delivery of any such Bond, date and manually sign the Paying Agent/Registrar's Authentication Certificate, and no such Bond shall be deemed to be issued or outstanding unless such Certificate is so executed. The Paying Agent/Registrar promptly shall cancel all paid Bonds and Bonds surrendered for conversion and exchange. No additional ordinances, orders or resolutions need be passed or adopted by the Board of Directors of the District or any other body or person so as to accomplish the foregoing conversion and exchange of any Bond or portion thereof, and the Paying Agent/Registrar shall provide for the printing, execution and delivery of the substitute Bonds in the manner prescribed herein, and the Bonds shall be of typewritten, photocopied, printed, lithographed, engraved or produced in any other similar manner, all as determined by the officers executing such bond as evidenced by their execution thereof. Pursuant to Chapter 1201, Texas Government Code, as amended, the duty of conversion and exchange of Bonds as aforesaid is hereby imposed upon the Paying Agent/Registrar, and, upon the execution of said Certificate, the converted and exchanged Bond shall be valid, incontestable and enforceable in the same manner and with the same effect as the Bonds which initially were issued and delivered pursuant to this Order, approved by the Attorney General, and registered by the Comptroller of Public Accounts.

(b) Payment of Bonds and Interest. The District hereby further appoints the Paying Agent/Registrar to act as the paying agent for paying the principal of and interest on the Bonds, all as provided in this Order. The Paying Agent/Registrar shall keep proper records of all payments made by the District and the Paying Agent/Registrar with respect to the Bonds, and of all conversions and exchanges of Bonds, and replacements

of Bonds, as provided in this Order. However, in the event of a nonpayment of interest on a scheduled payment date, and for thirty (30) calendar days thereafter, a new record date for such interest payment (a "Special Record Date") will be established by the Paying Agent/Registrar, if and when funds for the payment of such interest have been received from the District. Notice of the Special Record Date and of the scheduled payment date of the past due interest (which shall be fifteen (15) calendar days after the Special Record Date) shall be sent at least five (5) business days prior to the Special Record Date by United States mail, first-class postage prepaid, to the address of each registered owner appearing on the Registration Books at the close of business on the last business day next preceding the date of mailing of such notice.

(c) In General. The Bonds (i) shall be issued in fully registered form, without interest coupons, with the principal of and interest on such Bonds to be payable only to the registered owners thereof, (ii) may be transferred and assigned, (iii) may be converted and exchanged for other Bonds, (iv) shall have the characteristics, (v) shall be signed, sealed, executed and authenticated, (vi) shall be payable as to the principal of and interest, (vii) may be redeemed prior to their scheduled maturities (notice of which shall be given to the Paying Agent/Registrar at least fifty (50) calendar days prior to any such redemption date), and (viii) shall be administered, and the Paying Agent/Registrar and the District shall have certain duties and responsibilities with respect to the Bonds, all as provided, and in the manner and to the effect as required or indicated, in the FORM OF BOND set forth in this Order. The Bonds initially issued and delivered pursuant to this Order are not required to be, and shall not be, authenticated by the Paying Agent/Registrar, but on each substitute Bond issued in conversion of and exchange for any Bond or Bonds issued under this Order the Paying Agent/Registrar shall execute the PAYING AGENT/REGISTRAR'S AUTHENTICATION CERTIFICATE, in the form set forth in the FORM OF BOND.

(d) Substitute Paying Agent/Registrar. The District covenants with the registered owners of the Bonds that at all times while the Bonds are outstanding the District will provide a competent and legally qualified bank, trust company, financial institution or other agency to act as and perform the services of Paying Agent/Registrar for the Bonds under this Order, and that the Paying Agent/Registrar will be one entity. The District reserves the right to, and may, at its option, change the Paying Agent/Registrar upon not less than thirty (30) days written notice to the Paying Agent/Registrar, to be effective at such time which will not disrupt or delay payment on the next principal or interest payment date after such notice. In the event that the entity at any time acting as Paying Agent/Registrar (or its successor by merger, acquisition or other method) should resign or otherwise cease to act as such, the District covenants that promptly it will appoint a competent and legally qualified bank, trust company, financial institution or other agency to act as Paying Agent/Registrar under this Order. Upon any change in the Paying Agent/Registrar, the previous Paying Agent/Registrar promptly shall transfer and deliver the Registration Books (or a copy thereof), along with all other pertinent books and records relating to the Bonds, to the new Paying Agent/Registrar designated and appointed by the District. Upon any change in the Paying Agent/Registrar, the District promptly will cause a written notice thereof to be sent by the

new Paying Agent/Registrar to each registered owner of the Bonds, by United States mail, first-class postage prepaid, which notice also shall give the address of the new Paying Agent/Registrar. By accepting the position and performing as such, each Paying Agent/Registrar shall be deemed to have agreed to the provisions of this Order and a certified copy of this Order shall be delivered to each Paying Agent/Registrar.

(e) Book-Entry-Only System. The Bonds issued in exchange for the Bonds initially issued as provided in Section 5(h) shall be issued in the form of a separate single fully registered Bond for each of the maturities thereof registered in the name of Cede & Co., as nominee of DTC and except as provided in subsection (f) hereof, all of the outstanding Bonds shall be registered in the name of Cede & Co., as nominee of DTC.

With respect to Bonds registered in the name of Cede & Co., as nominee of DTC, the District and the Paying Agent/Registrar shall have no responsibility or obligation to any securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations on whose behalf DTC was created to hold securities to facilitate the clearance and settlement of securities transactions among DTC participants (the "DTC Participant") or to any person on behalf of whom such a DTC Participant holds an interest in the Bonds. Without limiting the immediately preceding sentence, the District and the Paying Agent/Registrar shall have no responsibility or obligation with respect to (i) the accuracy of the records of DTC, Cede & Co. or any DTC Participant with respect to any ownership interest in the Bonds, (ii) the delivery to any DTC Participant or any other person, other than a Registered Owner, as shown on the Registration Books, of any notice with respect to the Bonds, including any notice of redemption, or (iii) the payment to any DTC Participant or any person, other than a Registered Owner, as shown on the Registration Books of any amount with respect to principal of, premium, if any, or interest on the Bonds. Notwithstanding any other provision of this Order to the contrary, but to the extent permitted by law, the District and the Paying Agent/Registrar shall be entitled to treat and consider the person in whose name each Bond is registered in the Registration Books as the absolute owner of such Bond for the purpose of payment of principal, premium, if any, and interest, with respect to such Bond, for the purposes of registering transfers with respect to such Bond, and for all other purposes of registering transfers with respect to such Bonds, and for all other purposes whatsoever. The Paying Agent/Registrar shall pay all principal of, premium, if any, and interest on the Bonds only to or upon the order of the respective Registered Owners, as shown in the Registration Books as provided in this Order, or their respective attorneys duly authorized in writing, and all such payments shall be valid and effective to fully satisfy and discharge the District's obligations with respect to payment of principal of, premium, if any, and interest on the Bonds to the extent of the sum or sums so paid. No person other than a Registered Owner, as shown in the Registration Books, shall receive a Bond certificate evidencing the obligation of the District to make payments of principal, premium, if any, and interest pursuant to this Order. Upon delivery by DTC to the Paying Agent/Registrar of written notice to the effect that DTC has determined to substitute a new nominee in place of Cede & Co., and subject to the provisions in this Order with respect to interest checks being mailed to the registered owner at the close of business on the Record Date the word "Cede & Co." in this Order shall refer to such new

nominee of DTC.

(f) Successor Securities Depository; Transfer Outside Book-Entry-Only System. In the event that the District determines to discontinue the book-entry system through DTC or a successor or DTC determines to discontinue providing its services with respect to the Bonds, the District shall either (i) appoint a successor securities depository, qualified to act as such under Section 18(a) of the Securities and Exchange Act of 1934, as amended, notify DTC and DTC Participants of the appointment of such successor securities depository and transfer one or more separate Bonds to such successor securities depository or (ii) notify DTC and DTC Participants of the availability through DTC of Bonds and transfer one or more separate Bonds to DTC Participants having Bonds credited to their DTC accounts. In such event, the Bonds shall no longer be restricted to being registered in the Registration Books in the name of Cede & Co., as nominee of DTC, but may be registered in the name of the successor securities depository, or its nominee, or in whatever name or names Registered Owner transferring or exchanging Bonds shall designate, in accordance with the provisions of this Order.

(g) Payments to Cede & Co. Notwithstanding any other provision of this Order to the contrary, so long as any Bond is registered in the name of Cede & Co., as nominee of DTC, all payments with respect to principal of, premium, if any, and interest on such Bond and all notices with respect to such Bond shall be made and given, respectively, in the manner provided in the representation letter of the District to DTC.

(h) Initial Bond(s). The Bonds herein authorized shall be initially issued as fully registered bonds, being one bond for each maturity in the denomination of the applicable principal amount and the initial Bond(s) shall be registered in the names of the Purchaser or the designees thereof as set forth in Section 12 hereof. The initial Bond(s) shall be the Bonds submitted to the Office of the Attorney General of the State of Texas for approval, certified and registered by the Office of the Comptroller of Public Accounts of the State of Texas and delivered to the Purchaser. Immediately after the delivery of the initial Bond(s), the Registrar shall cancel the initial Bond(s) delivered hereunder and exchange therefor Bonds in the form of a separate single fully registered Bond for each of the maturities thereof registered in the name of Cede & Co., as nominee of DTC and except as provided in Section 5(f), all of the outstanding Bonds shall be registered in the name of Cede & Co., as nominee of DTC.

**Section 6. FORM OF BONDS.** The form of the Bonds, including the form of Paying Agent/Registrar's Authentication Certificate, the form of Assignment and the form of Registration Certificate of the Comptroller of Public Accounts of the State of Texas to be attached to the Bonds initially issued and delivered pursuant to this Order, shall be, respectively, substantially as follows, with such appropriate variations, omissions or insertions as are permitted or required by this Order.

**FORM OF BOND**

**UNITED STATES OF AMERICA  
STATE OF TEXAS**

**NORTHWEST AUSTIN MUNICIPAL UTILITY DISTRICT NO.1  
UNLIMITED TAX REFUNDING BOND, SERIES 2004  
[FORM OF FIRST PARAGRAPHS OF CURRENT INTEREST BONDS]**

**NO. R-** **PRINCIPAL  
AMOUNT**  
\$ \_\_\_\_\_

**INTEREST RATE    DATE OF BOND    MATURITY DATE    CUSIP NO.**

December 1, 2004

**REGISTERED OWNER:**

**PRINCIPAL AMOUNT:**

**ON THE MATURITY DATE** specified above, **NORTHWEST AUSTIN MUNICIPAL UTILITY DISTRICT NO. 1** (the "District"), being a political subdivision of the State of Texas, hereby promises to pay to the Registered Owner set forth above, or registered assign (hereinafter called the "registered owner") the Principal Amount set forth above, and to pay interest thereon from December 1, 2004, on March 1, 2005, and semiannually on each September 1 and March 1 thereafter to the maturity date specified above, or the date of redemption prior to maturity, at the interest rate per annum specified above; except that if this Bond is required to be authenticated and the date of its authentication is later than the first Record Date (hereinafter defined), such principal amount shall bear interest from the interest payment date next preceding the date of authentication, unless such date of authentication is after any Record Date but on or before the next following interest payment date, in which case such principal amount shall bear interest from such next following interest payment date; provided, however, that if on the date of authentication hereof the interest on the Bond or Bonds, if any, for which this Bond is being exchanged or converted from is due but has not been paid, then this Bond shall bear interest from the date to which such interest has been paid in full. Notwithstanding the foregoing, during any period in which ownership of the Bonds is determined only by a book entry at a securities depository for the Bonds, any payment to the securities depository, or its nominee or registered assigns, shall be made in accordance with existing arrangements between the District and the securities depository.

**THE PRINCIPAL OF AND INTEREST ON this Bond** are payable in lawful money of the United States of America, without exchange or collection charges. The

principal of this Bond shall be paid to the registered owner hereof upon presentation and surrender of this Bond at maturity or upon the date fixed for its redemption prior to maturity at the designated office for payment of JPMorgan Chase Bank, N.A. (the "Paying Agent/Registrar") in Dallas, Texas. The payment of interest on this Bond shall be made by the Paying Agent/Registrar to the registered owner hereof on each interest payment date by check or draft, dated as of such interest payment date, drawn by the Paying Agent/Registrar on, and payable solely from, funds of the District required by the order authorizing the issuance of the Bonds (the "Bond Order") to be on deposit with the Paying Agent/Registrar for such purpose as hereinafter provided: and such check or draft shall be sent by the Paying Agent/Registrar by United States mail, first-class postage prepaid, on or before each such interest payment date, to the registered owner hereof, at its address as it appeared on the fifteenth (15th) calendar day of the month next preceding each such date (the "Record Date") on the Registration Books kept by the Paying Agent/Registrar, as hereinafter described. In addition, interest may be paid by such other method, acceptable to the Paying Agent/Registrar, requested by, and at the risk and expense of, the registered owner. In the event of a non-payment of interest on a scheduled payment date, and for thirty (30) calendar days thereafter, a new record date for such interest payment (a "Special Record Date") will be established by the Paying Agent/Registrar, if and when funds for the payment of such interest have been received from the District. Notice of the Special Record Date and of the scheduled payment date of the past due interest (which shall be fifteen (15) calendar days after the Special Record Date) shall be sent at least five (5) business days prior to the Special Record Date by United States mail, first-class postage prepaid, to the address of each registered owner as it appears on the Registration Books at the close of business on the last business day next preceding the date of mailing of such notice.

**DURING ANY PERIOD** in which ownership of the Bonds is determined only by a book entry at a securities depository for the Bonds, if fewer than all of the Bonds of the same maturity and bearing the same interest rate are to be redeemed, the particular Bonds of such maturity and bearing such interest rate shall be selected in accordance with the arrangements between the District and the securities depository.

**ANY ACCRUED INTEREST** due at maturity or upon the redemption of this Bond prior to maturity as provided herein shall be paid to the registered owner upon presentation and surrender of this Bond for payment at the designated office for payment of the Paying Agent/Registrar. The District covenants with the registered owner of this Bond that on or before each principal payment date, interest payment date, and any redemption date for this Bond it will make available to the Paying Agent/Registrar, from the "Bond Fund" created by the Bond Order, the amounts required to provide for the payment, in immediately available funds, of all principal of and interest on the Bonds, when due.

UNITED STATES OF AMERICA  
STATE OF TEXAS

NORTHWEST AUSTIN MUNICIPAL UTILITY DISTRICT NO.1  
UNLIMITED TAX REFUNDING BOND, SERIES 2004  
[FORM OF FIRST PARAGRAPHS OF PREMIUM COMPOUND INTEREST BONDS]

NO. CR- \_\_\_\_\_ MATURITY  
AMOUNT  
\$ \_\_\_\_\_

INTEREST RATE    ISSUANCE DATE    MATURITY DATE    CUSIP NO.

December 30, 2004

REGISTERED OWNER:

MATURITY AMOUNT:

ON THE MATURITY DATE specified above, NORTHWEST AUSTIN MUNICIPAL UTILITY DISTRICT NO. 1 (the "District"), being a political subdivision of the State of Texas, hereby promises to pay to the Registered Owner set forth above, or registered assign (hereinafter called the "registered owner") the Maturity Amount set forth above, representing the principal amount hereof and accrued and compounded interest hereon. Interest shall accrue on the principal amount hereof from the Issuance Date at the interest rate per annum specified above, calculated on the basis of a 360-day year comprised of twelve 30-day months, compounded semiannually on March 1 and September 1 of each year commencing March 1, 2005. For convenience of reference a table of the "Accreted Value" per \$5,000 Maturity Amount is attached to this Bond. The term "Accreted Value" as set forth in the table attached to this Bond shall mean the original principal amount plus initial premium per \$5,000 Maturity Amount compounded semiannually on September 1 and March 1 at the yields shown on such table. Notwithstanding the foregoing, during any period in which ownership of the Bonds is determined only by a book entry at a securities depository for the Bonds, any payment to the securities depository, or its nominee or registered assigns, shall be made in accordance with existing arrangements between the District and the securities depository.

THE MATURITY AMOUNT of this Bond is payable in lawful money of the United States of America, without exchange or collection charges. The Maturity Amount of this Bonds shall be paid to the registered owner hereof upon presentation and surrender of this Bond at maturity, at the designated office for payment of JPMorgan Chase Bank, N.A. (the "Paying Agent/Registrar") in Dallas, Texas, and shall be drawn by the Paying Agent/Registrar on, and solely from, funds of the District required by the order authorizing the issuance of the Bonds (the "Order") to be on deposit with the

Paying Agent/Registrar for such purpose as hereinafter provided, payable to the registered owner hereof, as hereinafter described. The District covenants with the registered owner of this Bond that on or before the Maturity Date for this Bond it will make available to the Paying Agent/Registrar, from the "Bond Fund" created by the Order, the amounts required to provide for the payment, in immediately available funds of the Maturity Amount, when due.

[FORM OF REMAINDER OF EACH BOND]

**IF THE DATE** for any payment due on this Bond shall be a Saturday, Sunday, a legal holiday or a day on which banking institutions in the city where the office for payment of the Paying Agent/Registrar is located are authorized by law or executive order to close, or the United States Postal Service is not open for business, then the date for such payment shall be the next succeeding day which is not such a Saturday, Sunday, legal holiday or day on which banking institutions are authorized to close, or the United States Postal Service is not open for business; and payment on such date shall have the same force and effect as if made on the original date payment was due.

**THIS BOND** is one of a series of Bonds dated as of December 1, 2004 and authorized to be issued pursuant to the Bond Order adopted by the Board of Directors of the District in the principal amount of \$2,900,000 constituting \$\_\_\_\_\_ Current Interest Bonds and \$\_\_\_\_\_ Premium Compound Interest Bonds to refund certain outstanding bonds of the District and to pay certain costs of issuing the Bonds. The Bonds are being issued under and in strict conformity with Article 16, Section 59 of the Texas Constitution of the State of Texas and the laws of the State of Texas, including particularly Chapters 49 and 54 of Texas Water Code, as amended, and Chapter 1207, Texas Government Code, as amended.

**ON SEPTEMBER 1, 2014 OR ON ANY DATE THEREAFTER**, the Bonds maturing in the years September 1, 2015 through September 1, 2020, both inclusive, may be redeemed prior to their scheduled maturities, at the option of the District, with funds derived from any available and lawful source, at a redemption price equal to the principal amount to be redeemed plus accrued interest to the date fixed for redemption as a whole, or from time to time in part, and, if in part, the particular Bonds, or portions thereof, to be redeemed shall be selected and designated by the District, and if less than all of a maturity is to be redeemed the Paying Agent/Registrar shall determine by lot the Bonds, or portions thereof within such maturity to be redeemed (provided that a portion of a Bond may be redeemed only in integral multiples of \$5,000 of principal amount).

**THE BONDS MATURING ON SEPTEMBER 1, 20\_\_\_\_ AND SEPTEMBER 1, 20\_\_\_\_** are subject to mandatory sinking fund redemption prior to maturity in the following amount on the following date and at a price of par plus accrued interest to the redemption date ("Term Bonds").

**Term Bonds Maturing on**  
**Redemption Date      Principal Amount**

\_\_\_\_\_  
\*Final Maturity

**Term Bonds Maturing on \_\_\_\_\_**

**Redemption Date      Principal Amount**

\_\_\_\_\_  
\*Final Maturity

**THE PRINCIPAL AMOUNT** of the Term Bonds required to be redeemed pursuant to the operation of the mandatory sinking fund redemption provisions shall be reduced, at the option of the District by the principal amount of any Term Bond of the stated maturity which, at least fifty (50) days prior to a mandatory redemption date (1) shall have been acquired by the District at a price not exceeding the principal amount of such Term Bond plus accrued interest to the date of purchase thereof, and delivered to the Paying Agent/Registrar for cancellation, (2) shall have been purchased and canceled by the Paying Agent/Registrar at the request of the District with monies in the Interest and Sinking Fund at a price not exceeding the principal amount of the Term Bonds plus accrued interest to the date of purchase thereof, or (3) shall have been redeemed pursuant to the optional redemption provisions and not theretofore credited against a mandatory sinking fund redemption requirement.

The Paying Agent/Registrar shall give notice of any redemption of Bonds by sending notice by first class United States mail, postage prepaid, not less than 30 days before the date fixed for redemption, to the Owner of each Bond (or portion thereof) to be redeemed, at the address shown in the Register at the close of business on the Business Day next preceding the date of mailing of such notice.

**AT LEAST** thirty (45) calendar days prior to the date fixed for any redemption of Bonds or portions thereof prior to maturity (unless a shorter period shall be satisfactory to the Paying Agent/Registrar) the District shall notify the Paying Agent/Registrar of such redemption date and the principal amount of Bonds to be redeemed. The Paying Agent/Registrar shall give notice of any redemption of Bonds by sending notice by United States mail, first-class postage prepaid, not less than thirty (30) calendar days prior to the date fixed for any such redemption, to the registered owner of each Bond to be redeemed at its address as it appeared on the 45th calendar day prior to such redemption date and to major securities depositories and bond information services; provided, however, that the failure to send, mail or receive such notice, or any defect therein or in the sending or mailing thereof, shall not affect the validity or effectiveness of the proceedings for the redemption of any Bond, and by the date fixed for any such redemption due provision shall be made with the Paying Agent/Registrar for the payment of the required redemption price for the Bonds or portions for which such payment is made, all as provided above. The Bonds or portions thereof which are to be so redeemed

thereby automatically shall be treated as redeemed prior to their scheduled maturities, and they shall not bear interest after the date fixed for redemption, and they shall not be regarded as being outstanding except for the right of the registered owner to receive the redemption price from the Paying Agent/Registrar out of the funds provided for such payment. If a portion of any Bond shall be redeemed, a substitute Bond or Bonds having the same maturity date, bearing interest at the same rate, in any authorized denomination or denominations, at the written request of the registered owner, and in the aggregate principal amount equal to the *unredeemed portion thereof*, will be issued to the registered owner upon the surrender thereof for cancellation, at the expense of the District, all as provided in the Bond Order.

**ALL BONDS OF THIS SERIES** are issuable solely as fully registered Bonds, without interest coupons, in the denomination of any integral multiple of \$5,000. As provided in the Bond Order, this Bond may, at the request of the registered owner or the assignee or assignees hereof, be assigned, transferred, converted into and exchanged for a like aggregate amount of fully registered Bonds, without interest coupons, payable to the appropriate registered owner, assignee or assignees, as the case may be, having any authorized denomination or denominations as requested in writing by the appropriate registered owner, assignee or assignees, as the case may be, upon surrender of this Bond to the Paying Agent/Registrar for cancellation, all in accordance with the form and procedures set forth in the Bond Order. Among other requirements for such assignment and transfer, this Bond must be presented and surrendered to the Paying Agent/Registrar, together with proper instruments of assignment, in form and with guarantee of signatures satisfactory to the Paying Agent/Registrar, evidencing assignment of this Bond or any portion or portions hereof in any authorized denomination to the assignee or assignees in whose name or names this Bond or any such portion or portions hereof is or are to be registered. The Form of Assignment printed or endorsed on this Bond may be executed by the registered owner to evidence the assignment hereof, but such method is not exclusive, and other instruments of assignment satisfactory to the Paying Agent/Registrar may be used to evidence the assignment of this Bond or any portion or portions hereof from time to time by the registered owner. The Paying Agent/Registrar's reasonable standard or customary fees and charges for assigning, transferring, converting and exchanging any Bond or portion thereof will be paid by the District. In any circumstance, any taxes or governmental charges required to be paid with respect thereto shall be paid by the one requesting such assignment, transfer, conversion or exchange, as a condition precedent to the exercise of such privilege. The Paying Agent/Registrar shall not be required to make any such transfer, conversion or exchange: (i) during the period commencing with the close of business on any Record Date and ending with the opening of business on the next following principal or interest payment date; or (ii) with respect to any Bond or any portion thereof called for redemption prior to maturity, within forty-five (45) calendar days prior to its redemption date.

**WHENEVER** the beneficial ownership of this Bond is determined by a book entry at a securities depository for the Bonds, the foregoing requirements of holding, delivering or transferring this Bond shall be modified to require the appropriate person or entity to meet the requirements of the securities depository as to registering or

transferring the book entry to produce the same effect.

**IN THE EVENT** any Paying Agent/Registrar for the Bonds is changed by the District, resigns, or otherwise ceases to act as such, the District has covenanted in the Bond Order that it promptly will appoint a competent and legally qualified substitute therefor, and cause written notice thereof to be mailed to the registered owners of the Bonds.

**THE BONDS** are payable from the proceeds of a tax, without legal limit as to rate or amount, levied upon all taxable property within the District. The Bonds are further payable from the District's Net Revenues (as defined in the Bond Order), if any. The Bond Order provides that the District reserves the right to consolidate with one or more conservation and reclamation districts, to consolidate its waterworks and sewer systems with the systems of such districts, and to secure the Bonds and any other bonds of the District or such districts by a pledge of the net revenues of the consolidated system. The Bond Order further provides that the pledge of taxes and Net Revenues, if any, to the payment of the Bonds shall terminate at such time, if ever, as (i) money and/or direct obligations of the United States or obligations unconditionally guaranteed by the United States in an amount sufficient to defease the Bonds is deposited with or made available to the Paying Agent/Registrar in accordance with the Bond Order, or (ii) the City of Austin, Texas (the "City") dissolves the District, and assumes the obligations of the District pursuant to existing Texas law and the Consent Agreement between the District and the City.

**THE BONDS** are issued pursuant to the Bond Order, whereunder the District covenants to levy a continuing direct annual ad valorem tax, without legal limit as to rate or amount, on taxable property within the District, for each year while any part of the Bonds are considered outstanding under the provisions of the Bond Order, in sufficient amount, together with revenues and receipts available from other sources which are equally available for such purposes, to pay interest on the Bonds as it becomes due, to provide a sinking fund for the payment of the principal of the Bonds when due or the redemption price at any earlier required redemption date, to pay when due the other contractual obligations of the District payable in whole or in part from taxes, and to pay the expenses of assessing and collecting such tax, all as more specifically provided in the Bond Order. The Bonds are further payable from the Net Revenues, if any, of the System. Reference is hereby made to the Bond Order for provisions with respect to the operations and maintenance of the District's facilities, the custody and application of funds, remedies in the event of a default hereunder or thereunder, and the other rights of the registered owners of the Bonds. By acceptance of this Bond the registered owner hereof consents to all of the provisions of the Bond Order, a certified copy of which is on file in the office of the District.

**THE OBLIGATION** to pay the principal of and the interest on this Bond is solely and exclusively the obligation of the District until such time, if ever, as the District is abolished and this Bond is assumed as described above. No other entity, including the State of Texas, any political subdivision thereof other than the District, or any other

public or private body, is obligated, directly, indirectly, contingently, or in any other manner, to pay the principal of or the interest on this Bond from any source whatsoever. No part of the physical properties of the District, including the properties provided by the proceeds of the Bonds, is encumbered by any lien for the benefit of the registered owner of this Bond.

**THE DISTRICT RESERVES THE RIGHT** to issue additional bonds secured by a pledge of taxes and Net Revenues or from taxes only to the same extent as pledged for the Bonds; bonds, notes and other obligations as authorized by law; and revenue bonds, payable solely from contracts with other persons, including private corporations, municipalities and political subdivisions to finance facilities needed in performing any such contracts. Reference is made to the Bond Order for a complete description of the right to issue additional bonds.

**TO THE EXTENT** permitted by and in the manner provided in the Bond Order, the terms and provisions of the Bond Order and the rights of the registered owners of the Bonds may be modified with, in certain circumstances, the consent of the registered owners of a majority in aggregate principal amount of the Bonds affected thereby; provided, however, that, without the consent of the registered owners of all of the Bonds affected, no such modification shall (i) extend the time or times of payment of the principal of and interest on the Bonds, reduce the principal amount thereof or the rate of interest thereon, or in any other way modify the terms of payment of the principal of or interest on the Bonds, (ii) give any preference to any Bond over any other Bond, or (iii) reduce the aggregate principal amount of the Bonds required for consent to any such modification.

**THIS BOND** shall not be valid or obligatory for any purpose or be entitled to any benefit under the Bond Order unless this Bond either (a) is registered by the Comptroller of Public Accounts of the State of Texas as evidenced by execution of the registration certificate endorsed hereon or (b) is authenticated as evidenced by execution of the authentication certificate endorsed hereon by the Paying Agent/Registrar.

**IT IS HEREBY CERTIFIED, COVENANTED AND REPRESENTED** that all acts, conditions and things necessary to be done precedent to the issuance of the Bonds in order to render the same legal, valid, and binding obligations of the District have happened and have been accomplished and performed in regular and due time, form and manner, as required by law; that provision has been made for the payment of the principal of and interest on the Bonds by the levy of a continuing, direct annual ad valorem tax upon all taxable property within the District and by the pledge of Net Revenues, if any, as described above; and that issuance of the Bonds does not exceed any constitutional or statutory limitation. In the event that any provisions herein contained do or would, presently or prospectively, operate to make any part hereof void or voidable, such provisions shall be without effect or prejudice to the remaining provisions hereof, which shall nevertheless remain operative, and such violative provisions, if any, shall be reformed by a court of competent jurisdiction within the limits of the laws of the State of Texas.

**IT IS FURTHER CERTIFIED** that the District has designated the Bonds as "qualified tax-exempt obligations" within the meaning of Section 265(b) of the Internal Revenue Code of 1986.

**IN WITNESS WHEREOF**, the District has caused this Bond to be signed with the manual or facsimile signature of the President of the Board of Directors of the District and countersigned with the manual or facsimile signature of Secretary of the Board of Directors of the District, and has caused the official seal of the District to be duly impressed, or placed in facsimile, on this Bond.

\_\_\_\_\_  
President of the Board of Directors  
Northwest Austin Municipal Utility District No. 1

ATTEST:

\_\_\_\_\_  
Secretary of the Board of Directors  
Northwest Austin Municipal Utility District No. 1

(SEAL)

**FORM OF PAYING AGENT/REGISTRAR'S AUTHENTICATION  
CERTIFICATE**

**PAYING AGENT/REGISTRAR'S AUTHENTICATION CERTIFICATE**  
(To be executed if this Bond is not accompanied by an executed Registration  
Certificate of the Comptroller of Public Accounts of the State of Texas)

It is hereby certified that this Bond has been issued under the provisions of the Bond Order described in the text of this Bond; and that this Bond has been issued in conversion or replacement of, or in exchange for, a Bond, Bonds or a portion of a Bond or Bonds of a series which originally was approved by the Attorney General of the State of Texas and registered by the Comptroller of Public Accounts of the State of Texas.

Dated:

\_\_\_\_\_  
Paying Agent/Registrar

By: \_\_\_\_\_  
Authorized Representative

**FORM OF ASSIGNMENT**

**ASSIGNMENT**

For value received, the undersigned hereby sells, assigns and transfers unto \_\_\_\_\_

\_\_\_\_\_  
\_\_\_\_\_

Please insert Social Security or Taxpayer  
Identification Number of Transferee

\_\_\_\_\_  
\_\_\_\_\_

(Please print or typewrite name and address, including zip code of Transferee)

\_\_\_\_\_

the within Bond and all rights thereunder, and hereby irrevocably constitutes and appoints \_\_\_\_\_, attorney, to register the transfer of the within Bond on the books kept for registration thereof, with full power of substitution in the premises.

Dated: \_\_\_\_\_

Signature Guaranteed:

NOTICE: Signature(s) must be guaranteed by a member firm of the New York Stock Exchange or a commercial bank or trust company.

NOTICE: The signature above must correspond with the name of the registered owner as it appears upon the front of this Bond in every particular, without alteration or enlargement or any change whatsoever.

**FORM OF REGISTRATION CERTIFICATE OF  
THE COMPTROLLER OF PUBLIC ACCOUNTS**

**OFFICE OF THE COMPTROLLER )  
OF PUBLIC ACCOUNTS )  
 ) REGISTRATION NO. \_\_\_\_\_**

THE STATE OF TEXAS

)

I HEREBY CERTIFY that this Bond has been examined, certified as to validity and approved by the Attorney General of the State of Texas, and that this Bond has been duly registered by the Comptroller of Public Accounts of the State of Texas.

WITNESS my signature and seal this of office this \_\_\_\_\_.

\_\_\_\_\_  
Comptroller of Public Accounts  
of the State of Texas

(COMPTROLLER'S SEAL)

**Section 7. SECURITY FOR THE BONDS.** (a) Pledge and Levy of Taxes. For each year while any Bond is outstanding and the District remains in existence, there shall be and is hereby levied and assessed a continuing direct annual ad valorem tax upon each \$100 valuation of taxable property within the District at a rate from year to year sufficient, together with revenue and receipts from other sources which are legally available for such purposes (i) to pay interest on the Bonds as it becomes due, and (ii) to provide a sinking fund for the payment of the principal of the Bonds when due or the redemption price at any earlier required redemption date, full allowance being made for anticipated delinquencies. The District shall timely assess and diligently collect such tax and apply the collections thereof solely as provided herein. Each order of the Board of Directors levying and establishing the rate of ad valorem taxes shall specify the portion of such rate levied to pay the debt service requirements on obligations of the District payable from the Bond Fund and the portion, if any, of such rate levied for operating and maintenance purposes, and all collections of ad valorem taxes, including penalty and interest attributable thereto, and all expenses of assessing and collecting such taxes, shall be allocated among such purposes in proportion to the respective levies in the tax year with respect to which such taxes are owed. In the absence of any specification to the contrary in the order of the Board of Directors levying and establishing the rate of ad valorem taxes, the entire amount of such taxes for such year shall be deemed to have been levied to pay the debt service requirements on obligations of the District payable from the Bond Fund.

(b) Pledge of Net Revenues. The District covenants and agrees that the Net Revenues, if any, are hereby pledged for payment of the Bonds. The revenues hereby pledged shall immediately be subject to the lien of this pledge without any physical delivery thereof or further act, and the lien of this pledge shall be valid and binding as against any parties of any kind having a claim of any kind in tort, contract or otherwise against the District irrespective of whether such parties have notice thereof.

To the extent provided by law, such pledge of Net Revenues and taxes will terminate if the City takes over all properties and assets, assumes all debts, liabilities and

obligations, and performs all functions and services of the District, and the District is abolished pursuant to law and the Consent Agreement.

(c) Consolidation of District. The laws of the State of Texas permit the District to be consolidated with one or more conservation and reclamation districts. In the event the District is consolidated with another district or districts, the District reserves the right to:

(i) Consolidate the System with a similar system of one or more districts with which the District is consolidating and operate and maintain the systems as one consolidated system (herein for purposes of this section the "Consolidated System").

(ii) Apply the net revenues from the operation of the Consolidated System to the payment of principal, interest, redemption price and bank charges on the revenue bonds or the combination tax and revenue bonds (herein for purposes of this section the "Revenue Bonds") of the District and of the district or districts with which the District is consolidating (herein collectively the "Consolidating Districts") without preference to any series of bonds (except subordinate lien revenue bonds which shall continue to be subordinate to the first lien Revenue Bonds of the Consolidating Districts).

(iii) Pledge the net revenues of the Consolidated System to the payment of principal, interest, redemption price and bank charges on Revenue Bonds which may be issued by the Consolidating Districts on a parity with the outstanding first lien Revenue Bonds of the Consolidating Districts.

**Section 8. DEFEASANCE OF BONDS.** (a) Any Bond and the interest thereon shall be deemed to be paid, retired and no longer outstanding (a "Defeased Bond") within the meaning of this Order, except to the extent provided in subsections (c) and (e) of this Section, when payment of the principal of such Bond, plus interest thereon to the due date or dates (whether such due date or dates be by reason of maturity, upon redemption, or otherwise) either: (i) shall have been made or caused to be made in accordance with the terms thereof (including the giving of any required notice of redemption); or (ii) shall have been provided for on or before such due date by irrevocably depositing with or making available to the Paying Agent/Registrar for such payment (1) lawful money of the United States of America sufficient to make such payment, (2) Defeasance Securities, certified by an independent public accounting firm of national reputation to mature as to principal and interest in such amounts and at such times as will ensure the availability, without reinvestment, of sufficient money to provide for such payment and when proper arrangements have been made by the District with the Paying Agent/Registrar for the payment of its services until all Defeased Bonds shall have become due and payable, or (3) any combination of (1) and (2). At such time as a Bond shall be deemed to be a Defeased Bond hereunder, as aforesaid, such Bond and the interest thereon shall no longer be secured by, payable from, or entitled to the benefits of, the ad valorem taxes herein levied as provided in this Order, and such principal and

interest shall be payable solely from such money or Defeasance Securities.

(b) The deposit under clause (ii) of subsection (a) shall be deemed a payment of a Bond as aforesaid when proper notice of redemption of such Bonds shall have been given, in accordance with this Order. Any money so deposited with the Paying Agent/Registrar as provided in this Section may at the discretion of the Board of Directors also be invested in Defeasance Securities, maturing in the amounts and at the times as hereinbefore set forth, and all income from all Defeasance Securities in possession of the Paying Agent/Registrar pursuant to this Section which is not required for the payment of such Bond and premium, if any, and interest thereon with respect to which such money has been so deposited, shall be turned over to the Board of Directors.

(c) Notwithstanding any provision of any other Section of this Order which may be contrary to the provisions of this Section, all money or Defeasance Securities set aside and held in trust pursuant to the provisions of this Section for the payment of principal of the Bonds and premium, if any, and interest thereon, shall be applied to and used solely for the payment of the particular Bonds and premium, if any, and interest thereon, with respect to which such money or Defeasance Securities have been so set aside in trust. Until all Defeased Bonds shall have become due and payable, the Paying Agent/Registrar shall perform the services of Paying Agent/Registrar for such Defeased Bonds the same as if they had not been defeased, and the District shall make proper arrangements to provide and pay for such services as required by this Order.

(d) Notwithstanding anything elsewhere in this Order, if money or Defeasance Securities have been deposited or set aside with the Paying Agent/Registrar pursuant to this Section for the payment of Bonds and such Bonds shall not have in fact been actually paid in full, no amendment of the provisions of this Section shall be made without the consent of the registered owner of each Bond affected thereby.

(e) Notwithstanding the provisions of subsection (a) immediately above, to the extent that, upon the defeasance of any Defeased Bond to be paid at its maturity, the District retains the right under Texas law to later call that Defeased Bond for redemption in accordance with the provisions of the order authorizing its issuance, the District may call such Defeased Bond for redemption upon complying with the provisions of Texas law and upon the satisfaction of the provisions of subsection (a) immediately above with respect to such Defeased Bond as though it was being defeased at the time of the exercise of the option to redeem the Defeased Bond and the effect of the redemption is taken into account in determining the sufficiency of the provisions made for the payment of the Defeased Bond.

As used in this section, "Defeasance Securities" means (i) Federal Securities, (ii) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date the Board of Directors adopts or approves proceedings authorizing the issuance of refunding bonds or otherwise provide for the funding of an escrow to effect the defeasance of the Bonds are rated as to investment

quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent, and (iii) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that, on the date the Board of Directors adopts or approves proceedings authorizing the issuance of refunding bonds or otherwise provide for the funding of an escrow to effect the defeasance of the Bonds, are rated as to investment quality by a nationally recognized investment rating firm no less than "AAA" or its equivalent.

**Section 9. FUNDS, FLOW OF FUNDS, APPLICATION OF FUNDS AND INVESTMENTS.** (a) Designation of Funds. The following funds are hereby created or affirmed:

- (i) the Operating Fund;
- (ii) the Bond Fund; and
- (iii) the Escrow Fund.

Each fund shall be kept separate and apart from all other funds of the District. The Bond Fund shall constitute a trust fund which shall be held in trust for the benefit of the owners of the Bonds. All other funds shall be used solely as provided in this Order until all of the Bonds have been retired, both as to principal and interest.

(b) Operating Fund. The Operating Fund shall comprise the fund of the District for operating and maintaining the System and paying general and administrative expenses of the District. The District shall deposit to the credit of the Operating Fund all income or increment which may grow out of the ownership and operation of the System unless derived from contracts with other persons, including private corporations, municipalities and political subdivisions which, under the terms of the authorizing orders, may be pledged for the requirements of the District's revenue bonds issued particularly to finance the facilities needed in performing any such contracts, and the District may deposit to the credit of the Operating Fund such other income or receipts of the District not otherwise required to be applied by this Order. The Operating Fund shall be used solely to (i) pay all reasonable expenses of the administration, efficient operation and adequate maintenance of the System, (ii) transfer from time to time any excess to the credit of the Bond Fund when needed to pay the obligations of the District payable therefrom, and (iii) to the extent the balance of the Bond Fund and tax collections available for deposit thereto are sufficient to pay when due the obligations of the District payable from the Bond Fund, to pay any other expense of the District.

(c) Bond Fund. The Bond Fund shall comprise the interest and sinking fund of the District. The District shall deposit to the credit of the Bond Fund (i) accrued interest on the Current Interest Bonds from their date to the date of their delivery, (ii) collections of District taxes or Net Revenues, if any, to the extent provided in Section 7(a) and 7(b) hereof, and (iii) amounts transferred from the Operating Fund to the extent provided in paragraph (b) of this Section 9. The Bond Fund, including interest earnings

or amounts deposited therein, shall be applied solely to pay the principal or redemption price of and interest on the Bonds when due, the fees of the Paying Agent/Registrar and to pay when due any other bonds or notes of the District payable in whole or in part from taxes or Net Revenues.

(d) Escrow Fund. The Escrow Fund shall be created and shall be governed by the terms of the Escrow Agreement in substantially the form attached hereto as Exhibit A.

(e) Investment of Funds. Except for the accrued interest on the Bonds deposited in the Bond Fund, the Board of Directors may place money in any Fund created by this Order in time or demand deposits or invest such moneys as authorized by law at the time of such deposit. Accrued interest deposited into the Bond Fund shall be invested only in direct obligations of (including obligations issued or held in book-entry-only form on the books of the Department of Treasury) the United States. The District hereby covenants that the proceeds of the sale of the Bonds will be used as soon as practicable for the purposes for which the Bonds are issued. Obligations purchased as an *investment of money in any Fund shall be deemed to be a part of such Fund.* Except as otherwise provided by law or by this Order, amounts received from the investment of any money in any Fund created by this Order, except the Bond Fund which shall be applied as set forth in Section 9(c) above, may be placed into any fund of the District as determined by the Board of Directors.

(f) Security for Funds. All funds created by this Order shall be secured in the manner and to the fullest extent required by law for the security of funds of the District.

(g) Interest Earnings on Bond Proceeds. Interest earnings derived from the investment of proceeds from the sale of the Bonds, not otherwise required to be rebated to the United States, shall be used along with other Bond proceeds for the purpose for which the Bonds are issued as set forth in Section 1 hereof; provided that after completion of such purpose, if any of such interest earnings remain on hand, such interest earnings shall be deposited in the Bond Fund.

**Section 10. CUSTODY, APPROVAL AND REGISTRATION OF BONDS; BOND COUNSEL'S OPINION; CUSIP NUMBERS AND CONTINGENT INSURANCE PROVISION, IF OBTAINED.** The President of the Board of Directors of the District is hereby authorized to have control of the Bonds initially issued and delivered hereunder and all necessary records and proceedings pertaining to the Bonds pending their delivery and their investigation, examination and approval by the Attorney General of the State of Texas, and their registration by the Comptroller of Public Accounts of the State of Texas. Upon registration of the Bonds said Comptroller of Public Accounts (or a deputy designated in writing to act for said Comptroller) shall manually sign the Comptroller's Registration Certificate attached to such Bonds, and the seal of said Comptroller shall be impressed, or placed in facsimile, on such Certificate. The approving legal opinion of the District's Bond Counsel and the assigned CUSIP numbers may, at the option of the District, be printed on the Bonds issued and delivered

under this Order, but neither shall have any legal effect, and shall be solely for the convenience and information of the registered owners of the Bonds. In addition, if a Municipal Bond Insurance Policy is obtained, the Bonds may bear an appropriate legend as provided by such bond insurer.

**Section 11. COVENANTS REGARDING TAX EXEMPTION OF INTEREST ON THE BONDS.**

(a) Covenants. The District covenants to take any action necessary to assure, or refrain from any action which would adversely affect, the treatment of the Bonds as obligations described in section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), the interest on which is not includable in the "gross income" of the holder for purposes of federal income taxation. In furtherance thereof, the District covenants as follows:

(1) to take any action to assure that no more than 10 percent of the proceeds of the Bonds or the projects financed therewith (less amounts deposited to a reserve fund, if any) are used for any "private business use," as defined in section 141(b)(6) of the Code or, if more than 10 percent of the proceeds or the projects financed therewith are so used, such amounts, whether or not received by the District, with respect to such private business use, do not, under the terms of this Order or any underlying arrangement, directly or indirectly, secure or provide for the payment of more than 10 percent of the debt service on the Bonds, in contravention of section 141 (b)(2) of the Code;

(2) to take any action to assure that in the event that the "private business use" described in subsection (1) hereof exceeds 5 percent of the proceeds of the Bonds or the projects financed therewith (less amounts deposited into a reserve fund, if any) then the amount in excess of 5 percent is used for a "private business use" which is "related" and not "disproportionate," within the meaning of section 141 (b)(3) of the Code, to the governmental use;

(3) to take any action to assure that no amount which is greater than the lesser of \$5,000,000, or 5 percent of the proceeds of the Bonds (less amounts deposited into a reserve fund, if any) is directly or indirectly used to finance loans to persons, other than state or local governmental units, in contravention of section 141 (c) of the Code;

(4) to refrain from taking any action which would otherwise result in the Bonds being treated as "private activity bonds" within the meaning of section 141 (b) of the Code;

(5) to refrain from taking any action that would result in the Bonds being "federally guaranteed" within the meaning of section 149(b) of the Code;

(6) to refrain from using any portion of the proceeds of the Bonds, directly or indirectly, to acquire or to replace funds which were used, directly or indirectly, to acquire investment property (as defined in section 148(b)(2) of the

Code) which produces a materially higher yield over the term of the Bonds, other than investment property acquired with:

(A) proceeds of the Bonds invested for a reasonable temporary period of 3 years or less or, in the case of a refunding bond, for a period of 30 days or less until such proceeds are needed for the purpose for which the bonds are issued;

(B) amounts invested in a bona fide debt service fund, within the meaning of section 1.148-1(b) of the Treasury Regulations; and

(C) amounts deposited in any reasonably required reserve or replacement fund to the extent such amounts do not exceed 10 percent of the proceeds of the Bonds;

(7) to otherwise restrict the use of the proceeds of the Bonds or amounts treated as proceeds of the Bonds, as may be necessary, so that the Bonds do not otherwise contravene the requirements of section 148 of the Code (relating to arbitrage) and, to the extent applicable, section 149(d) of the Code (relating to advance refundings); and

(8) to pay to the United States of America at least once during each five-year period (beginning on the date of delivery of the Bonds) an amount that is at least equal to 90 percent of the "Excess Earnings," within the meaning of section 148(f) of the Code and to pay to the United States of America, not later than 60 days after the Bonds have been paid in full, 100 percent of the amount then required to be paid as a result of Excess Earnings under section 148(f) of the Code.

(b) Rebate Fund. In order to facilitate compliance with the above covenant (8), a "Rebate Fund" is hereby established by the District for the sole benefit of the United States of America, and such fund shall not be subject to the claim of any other person, including without limitation the bondholders. The Rebate Fund is established for the additional purpose of compliance with section 148 of the Code.

(c) Proceeds. The District understands that the term "proceeds" includes "disposition proceeds" as defined in the Treasury Regulations and, in the case of refunding bonds, transferred proceeds (if any) and proceeds of the refunded bonds expended prior to the date of issuance of the Bonds. It is the understanding of the District that the covenants contained herein are intended to assure compliance with the Code and any regulations or rulings promulgated by the U. S. Department of the Treasury pursuant thereto. In the event that regulations or rulings are hereafter promulgated which modify or expand provisions of the Code, as applicable to the Bonds, the District will not be required to comply with any covenant contained herein to the extent that such failure to comply, in the opinion of nationally recognized bond counsel, will not adversely affect the exemption from federal income taxation of interest on the Bonds under section 103 of

the Code. In the event that regulations or rulings are hereafter promulgated which impose additional requirements which are applicable to the Bonds, the District agrees to comply with the additional requirements to the extent necessary, in the opinion of nationally recognized bond counsel, to preserve the exemption from federal income taxation of interest on the Bonds under section 103 of the Code. In furtherance of such intention, the District hereby authorizes and directs the President of the Board of Directors to execute any documents, certificates or reports required by the Code and to make such elections, on behalf of the District, which may be permitted by the Code as are consistent with the purpose for the issuance of the Bonds.

(d) [Intentionally Omitted.]

(e) [Intentionally Omitted.]

(f) Designation as Qualified Tax-Exempt Bonds. The District hereby designates the Bonds as "qualified tax-exempt bonds" as defined in section 265(b)(3) of the Code. In furtherance of such designation, the District represents, covenants and warrants the following: (a) that during the calendar year in which the Bonds are issued, the District (including any subordinate entities) has not designated nor will designate bonds, which when aggregated with the Bonds, will result in more than \$10,000,000 of "qualified tax-exempt bonds" being issued; (b) that the District reasonably anticipates that the amount of tax-exempt obligations issued, during the calendar year in which the Bonds are issued, by the District (or any subordinate entities) will not exceed \$10,000,000; and (c) that the District will take such action or refrain from such action as necessary, and as more particularly set forth in this Section, in order that the Bonds will not be considered "private activity bonds" within the meaning of section 141 of the Code.

**Section 12. SALE OF BONDS.** The Bonds are hereby sold to Caprock Securities, Inc. (the "Purchaser") in accordance with the terms of the Bond Purchase Agreement attached hereto as Exhibit B. The Board of Directors hereby finds and determines that the net effective interest rate on the Bonds, as calculated pursuant to Chapter 1204, Texas Government Code, as amended, is \_\_\_\_\_% which rate is not more than two (2) percent above the highest average interest rate reported by the "Daily Bond Buyer" in its weekly "Bond Index" during the one month period preceding the date of the Preliminary Official Statement, \_\_\_\_\_, 2004. The Bonds shall initially be registered in the name of the Purchaser.

**Section 13. GENERAL COVENANTS OF THE DISTRICT.** The District covenants and represents that:

(1) It has lawful power to issue the Bonds and to pledge the Net Revenues and has lawfully exercised such power under the Constitution and laws of the State of Texas.

(2) The Bonds shall be ratably secured in such manner that no one Bond shall have preference over other Bonds.

(3) Except for the pledge to the payment of the Previously Issued Bonds, the Net Revenues have not been in any manner pledged to the payment of any debt or obligation of the District or of the System.

(4) It has obtained or will obtain and will comply with the terms and conditions of all franchises, permits and authorizations and will maintain same in full force and effect.

(5) It will proceed to acquire and construct with all due diligence and dispatch so much of the System as shall have been financed with the proceeds of the Bonds.

(6) It will levy an ad valorem tax that will be sufficient to provide funds to pay the interest on the Bonds and to provide the necessary sinking fund, all as described in Section 7 of this Order.

(7) It shall keep accurate records and accounts and employ an independent certified public accountant to audit and report on its financial affairs at the close of each fiscal year. Such audits shall be in accordance with applicable law, rules and regulations in effect from time to time, including particularly Section 50.371 *et seq.* of the Texas Water Code, as amended, and the Water District Financial Management Guide adopted by the Texas Commission on Environmental Quality. A copy of such audit shall be filed in the office of the District and shall be open to inspection by any interested person during normal office hours. The District shall allow any holder or holders of not less than 25% in principal amount of the bonds then outstanding to inspect the System and all records, accounts and data of the District relating thereto at all reasonable times and shall furnish a copy of such audit report to any such holder or holders upon request upon payment to the District of the charge therefor as prescribed by law.

(8) The President, the Vice President, the Secretary and all other officers of the Board of Directors from time to time, or any of them, are hereby authorized and directed to do any and all things required for the construction of the System and are further authorized and directed to make money of the District available for the payment of the Bonds in the manner provided by law and herein.

**Section 14. REMEDIES OF REGISTERED OWNERS.** In addition to all rights and remedies of any registered owner of the Bonds provided by the laws of the State of Texas the District and the Board of Directors covenant and agree that in the event the District defaults in the payment of the principal of or interest on any of the Bonds when due, fails to make the payments required by this Order to be made into the Bond Fund, or defaults in the observance or performance of any of the covenants, conditions or obligations set forth in this Order, the registered owner of any of the Bonds shall be entitled to a writ of mandamus issued by a court of proper jurisdiction compelling and requiring the Board and other officers of the District to observe and

perform any covenant, obligation or condition prescribed in this Order. No delay or omission by any registered owner upon default shall impair any such right or power, or shall be construed to be a waiver of any such default or acquiescence therein, and every such right or power may be exercised from time to time and as often as may be deemed expedient. The specific remedies mentioned in this Order shall be available to the registered owners of the Bonds as provided herein and shall be cumulative of all other lasting remedies.

**Section 15. ADDITIONAL BONDS AND REFUNDING BONDS.** (a) Additional Bonds. The District reserves the right to issue additional bonds as may hereafter be authorized, payable from and equally secured by a pledge of taxes or Net Revenues or both; bonds, notes and other obligations as authorized by law; and revenue bonds payable solely from contracts with other persons, including private corporations, municipalities and political subdivisions, issued particularly to finance facilities needed in performing any such contracts.

(b) Refunding Bonds. The District further reserves the right to refund any Bonds and the Previously Issued Bonds.

**Section 16. APPROVAL OF OFFICIAL STATEMENT, ESCROW AGREEMENT, BOND PURCHASE AGREEMENT AND PAYING AGENT/REGISTRAR AGREEMENT.** The District hereby approves the form and content of the Official Statement relating to the Bonds and any addenda, supplement or amendment thereto, and approves the distribution of such Official Statement in the reoffering of the Bonds by the Purchaser in final form, with such changes therein or additions thereto as the officer executing the same may deem advisable, such determination to be conclusively evidenced by his execution thereof. The distribution and use of the Preliminary Official Statement, dated November \_\_\_\_, 2004, prior to the date hereof is hereby ratified and confirmed.

The Paying Agent/Registrar Agreement by and between the District and JPMorgan Chase Bank, N.A., Dallas, Texas, ("Paying Agent Agreement") in substantially the form and substance attached hereto as Exhibit C is hereby approved and the President or Vice President of the Board of Directors is hereby authorized and directed to complete, amend, modify and execute the Paying Agent Agreement, as necessary.

The Escrow Agreement by and between the District and JPMorgan Chase Bank, N.A., Dallas, Texas, as Escrow Agent (the "Escrow Agreement") in substantially the form and substance attached hereto as Exhibit A is hereby approved, and the President or Vice President of the Board of Directors is hereby authorized to complete, amend, modify and execute the Escrow Agreement, as necessary and the Secretary or Assistant Secretary is authorized and directed to attest such agreement.

The President, Vice President, the Secretary or Assistant Secretary are each hereby authorized to take such action as may be necessary to cause the purchase and

delivery of the federal securities to be acquired and deposited to the credit of the Escrow Fund created by the Escrow Agreement.

The Bond Purchase Agreement by and between the District and the Purchaser (the "Bond Purchase Agreement") in substantially the form attached hereto as Exhibit B is hereby approved, and the President or Vice President of the Board of Directors is hereby authorized to complete, amend, modify and execute the Bond Purchase Agreement, as necessary and the Secretary or Assistant Secretary is authorized and directed to attest such agreement.

**Section 17. DAMAGED, MUTILATED, LOST, STOLEN OR DESTROYED BONDS.** (a) Replacement Bonds. In the event any outstanding Bond is damaged, mutilated, lost, stolen or destroyed, the Paying Agent/Registrar shall cause to be printed, executed and delivered, a new bond of the same principal amount, maturity and interest rate, as the damaged, mutilated, lost, stolen or destroyed Bond, in replacement for such Bond in the manner hereinafter provided.

(b) Application for Replacement Bonds. Application for replacement of damaged, mutilated, lost, stolen or destroyed Bonds shall be made by the registered owner thereof to the Paying Agent/Registrar. In every case of loss, theft or destruction of a Bond, the registered owner applying for a replacement bond shall furnish to the District and to the Paying Agent/Registrar such security or indemnity as may be required by them to save each of them harmless from any loss or damage with respect thereto. Also, in every case of loss, theft or destruction of a Bond, the registered owner shall furnish to the District and to the Paying Agent/Registrar evidence to their satisfaction of the loss, theft or destruction of such Bond. In every case of damage or mutilation of a Bond, the registered owner shall surrender to the Paying Agent/Registrar for cancellation the Bond so damaged or mutilated.

(c) No Default Occurred. Notwithstanding the foregoing provisions of this Section, in the event any such Bond shall have matured, and no default has occurred which is then continuing in the payment of the principal of or interest on the Bond, the District may authorize the payment of the same (without surrender thereof except in the case of a damaged or mutilated Bond) instead of issuing a replacement Bond, provided security or indemnity is furnished as above provided in this Section.

(d) Charge for Issuing Replacement Bonds. Prior to the issuance of any replacement bond, the Paying Agent/Registrar shall charge the registered owner of such Bond with all legal, printing and other expenses in connection therewith. Every replacement bond issued pursuant to the provisions of this section by virtue of the fact that any Bond is lost, stolen or destroyed shall constitute a contractual obligation of the District whether or not the lost, stolen or destroyed Bond shall be found at any time, or be enforceable by anyone, and shall be entitled to all the benefits of this Order equally and proportionately with any and all other Bonds duly issued under this Order.

(e) Authority for Issuing Replacement Bonds. In accordance with Section

1201.062, Texas Government Code, this section of this Order shall constitute authority for the issuance of any such replacement bond without necessity of further action by the governing body of the District or any other body or person, and the duty of the replacement of such bonds is hereby authorized and imposed upon the Paying Agent/Registrar, and the Paying Agent/Registrar shall authenticate and deliver such Bonds in the form and manner and with the effect, as provided in Section 5(a) of this Order for Bonds issued in conversion and exchange for other Bonds.

**Section 18. ORDER A CONTRACT; AMENDMENTS.** The District acknowledges that the covenants and obligations of the District herein contained are a material inducement to the purchase of the Bonds. This Order shall constitute a contract with the holders of the Bonds from time to time, binding on the District and its successors and assigns, and shall not be amended or repealed by the District so long as any Bond remains outstanding except as permitted in this Section 18. The District may, without the consent of or notice to any holders of Bonds, from time to time and at any time amend this Order in any manner not detrimental to the interests of the holders of the Bonds, including the curing of any ambiguity, inconsistency or formal defect or omission herein. In addition, the District may, with the written consent (expressed as provided herein) of the holders of a majority in aggregate principal amount of the Bonds then outstanding affected thereby, amend, add to or rescind any of the provisions of this Order; provided; that, without the consent of the holders of all of the Bonds affected, no such amendment addition or rescission shall (i) extend the time or times of payment of the principal of and interest on the Bonds, reduce the principal amount thereof or the rate of interest thereon, change the place or places, or the coin or currency in which, any Bond or the interest thereon is payable or in any other way modify the terms of payment of the principal of or interest on the Bonds, (ii) give any preference to any Bond over any other Bond, or (iii) reduce the aggregate principal amount of Bonds required for consent to any such amendment, addition or rescission. Whenever the District shall desire to make any amendment or addition to or rescission of this Order requiring the consent of holders of the Bonds, the District shall cause notice of the amendment, addition or rescission to be published at least once a week for two consecutive weeks in a newspaper or financial journal of general circulation in the City of Austin, Texas, the first of each such publications being at least thirty (30) days prior to the date of adoption of such amendment, addition or rescission. If, because of temporary or permanent suspension of publication or general circulation of such newspapers or journals, it is impossible or impracticable to publish such notice in the manner provided herein, then such publication in lieu thereof as the District shall deem satisfactory shall constitute sufficient publication of such notice. Whenever, at any time within one year after the date of the first publication of such notice, the District shall receive an instrument or instruments in writing executed by the holders of a majority in aggregate principal amount of the Bonds then outstanding affected by any such amendment, addition or rescission requiring the consent of holders of Bonds, which instrument or instruments shall refer to the proposed amendment, addition or rescission described in such notice and shall specifically consent to and approve the adoption thereof in substantially the form of the copy thereof referred to in such notice, thereupon, but not otherwise, the District may adopt such amendment addition, or rescission in substantially such form, except as herein provided. No holder

of Bonds may thereafter object to the adoption of such amendment, addition or rescission, or to any of the provisions thereof, and such amendment, addition or rescission shall be fully effective for all purposes.

**Section 19. PARTIES INTEREST HEREIN.** Nothing in this Order, expressed or implied, is intended or shall be construed to confer upon, or to give to, any person or entity, other than the District, the bond insurer, if any, and the registered owners of the Bonds, any right, remedy or claim under or by reason of this Order or any covenant, condition or stipulation hereof, and all covenants, stipulations, promises and agreements in this Order contained by and on behalf of the District shall be for the sole and exclusive benefit of the District and the registered owners of the Bonds.

**Section 20. OPEN MEETING.** It is hereby officially found and determined that the meeting at which this Order is adopted, was open to the public, and public notice of the time, place and purpose of said meeting was given, all as required by Chapter 551, Government Code, as amended and Chapter 49, Texas Water Code, as amended.

**Section 21. CONTINUING DISCLOSURE UNDERTAKING.** (a) Annual Reports. The District shall provide annually to each NRMSIR and any SID, within six months after the end of each fiscal year ending in or after 2004, financial information and operating data with respect to the District of the general type included in the final Official Statement authorized by Section 16 of this Order, being the information described in Exhibit D hereto. Any financial statements so to be provided shall be (1) prepared in accordance with the accounting principles described in Exhibit D hereto, or such other accounting principles as the District may be required to employ from time to time pursuant to state law or regulation, and (2) audited, if the District commissions an audit of such statements and the audit is completed within the period during which they must be provided. If the audit of such financial statements is not complete within such period, then the District shall provide unaudited financial statements by the required time, and will provide audited financial statements for the applicable fiscal year to each NRMSIR and any SID, when and if the audit report on such statements become available.

If the District changes its fiscal year, it will notify each NRMSIR and any SID of the change (and of the date of the new fiscal year end) prior to the next date by which the District otherwise would be required to provide financial information and operating data pursuant to this Section.

The financial information and operating data to be provided pursuant to this Section may be set forth in full in one or more documents or may be included by specific reference to any document (including an official statement or other offering document, if it is available from the MSRB) that theretofore has been provided to each NRMSIR and any SID or filed with the SEC.

(b) Material Event Notices. The District shall notify any SID and either each NRMSIR or the MSRB, in a timely manner, of any of the following events with respect to the Bonds, if such event is material within the meaning of the federal securities laws:

- A. Principal and interest payment delinquencies;
- B. *Non-payment related defaults;*
- C. *Unscheduled draws on debt service reserves reflecting financial difficulties;*
- D. *Unscheduled draws on credit enhancements reflecting financial difficulties;*
- E. *Substitution of credit or liquidity providers, or their failure to perform;*
- F. *Adverse tax opinions or events affecting the tax-exempt status of the Bonds;*
- G. *Modifications to rights of holders of the Bonds;*
- H. *Bond calls;*
- I. *Defeasances;*
- J. *Release, substitution or sale of property securing repayment of the Bonds; and*
- K. *Rating changes.*

The District shall notify any SID and either each NRMSIR or the MSRB, in a timely manner, of any failure by the District to provide financial information or operating data in accordance with Section 21 of this Order by the time required by such section.

(c) Limitations, Disclaimers and Amendments. The District shall be obligated to observe and perform the covenants specified in this section for so long as, but only for so long as, the District remains an "obligated person" with respect to the Bonds within the meaning of the Rule, except that the District in any event will give notice of any deposit made in accordance with Section 8 that causes the Bonds no longer to be outstanding.

The provisions of this section are for the sole benefit of the holders and beneficial owners of the Bonds, and nothing in this section, express or implied, shall give any benefit or any legal or equitable right, remedy or claim hereunder to any other person. *The District undertakes to provide only the financial information, operating data, financial statements and notices which it has expressly agreed to provide pursuant to this section and does not hereby undertake to provide any other information that may be relevant or material to a complete presentation of the District's financial results, condition*

or prospects or hereby undertake to update any information provided in accordance with this section or otherwise, except as expressly provided herein. The District does not make any representation or warranty concerning such information or its usefulness to a decision to invest in or sell Bonds at any future date.

UNDER NO CIRCUMSTANCES SHALL THE DISTRICT BE LIABLE TO THE HOLDER OR BENEFICIAL OWNER OF ANY BOND OR ANY OTHER PERSON, IN CONTRACT OR TORT, FOR DAMAGES RESULTING IN WHOLE OR IN PART FROM ANY BREACH BY THE DISTRICT, WHETHER NEGLIGENT OR WITHOUT FAULT ON ITS PART, OF ANY COVENANT SPECIFIED IN THIS SECTION, BUT EVERY RIGHT AND REMEDY OF ANY SUCH PERSON, IN CONTRACT OR TORT, FOR OR ON ACCOUNT OF ANY SUCH BREACH SHALL BE LIMITED TO AN ACTION FOR MANDAMUS OR SPECIFIC PERFORMANCE.

No default by the District in observing or performing its obligations under this Section shall comprise a breach of or default under the Order for purposes of any other provision of this Order.

Nothing in this Section is intended or shall act to disclaim, waive or otherwise limit the duties of the District under federal and state securities laws.

The provisions of this Section may be amended by the District from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law or a change in the identity, nature, status or type of operations of the District, but only if (1) the provisions of this Section, as so amended, would have permitted an underwriter to purchase or sell Bonds in the primary offering of the Bonds in compliance with the Rule, taking into account any amendments or interpretations of the Rule since such offering as well as such changed circumstances, and (2) either (a) the holders of a majority in aggregate principal amount (or any greater amount required by any other provision of this Order that authorizes such an amendment) of the outstanding Bonds consents to such amendment, or (b) a person that is unaffiliated with the District (such as nationally recognized bond counsel) determines that such amendment will not materially impair the interest of the holders and beneficial owners of the Bonds. If the District so amends the provisions of this Section, it shall include with any amended financial information or operating data next provided in accordance with Section 21(a) an explanation, in narrative form, of the reason for the amendment and of the impact of any change in the type of financial information or operating data so provided. The District may also amend or repeal the provisions of this continuing disclosure agreement if the SEC amends or repeals the applicable provision of the Rule or a court of final jurisdiction enters judgment that such provisions of the Rule are invalid, but only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling Bonds in the primary offering of the Bonds.

**Section 22. REDEMPTION OF REFUNDED BONDS.**

(a) The District hereby directs that the Series 1997 Refunded Bonds and the

Series 1999 Refunded Bonds described on Schedule I attached hereto be called for redemption on December 31, 2004 and September 1, 2006, respectively, at the redemption price of par plus accrued interest to the date of redemption.

(b) The Secretary of the Board of Directors is hereby authorized to cause notice of redemption to be given to the paying agent/registrars for the Refunded Bonds by delivery thereto of a certified copy of this Order, the delivery of this Order constituting delivery of notice of redemption. The paying agent/registrars for the Refunded Bonds is hereby directed to provide the appropriate notices of redemption and defeasance, as required under the respective orders pursuant to which such Refunded Bonds were issued, and is hereby directed to make appropriate arrangements so that the Refunded Bonds may be redeemed on the redemption date.

(c) The source of funds for payment of the principal of and interest on the Refunded Bonds on their respective maturity or redemption dates shall be from the funds placed in escrow with the Escrow Agent, pursuant to the Escrow Agreement approved in Section 16 of this Order.

**Section 23. FURTHER PROCEDURES.** The officers and employees of the District are hereby authorized and directed from time to time and at any time to do and perform all such acts and things and to execute, acknowledge and deliver in the name and on behalf of and under the corporate seal of the District all agreements, instruments, or such other documents, whether mentioned herein or not, as may be necessary or desirable in order to carry out the terms and provisions of this Order, the Escrow Agreement, the Paying Agent/Registrar Agreement, and the Bond Purchase Agreement and the initial sale and delivery of the Bonds. In addition, prior to the initial delivery of the Bonds, the President or the Vice President of the Board of Directors and the District's Bond Counsel are hereby authorized and directed to approve any technical changes or corrections to this Order or to any of the instruments authorized and approved by this Order (i) in order to cure any technical ambiguity, formal defect, or omission in the Order or such other document, or (ii) as requested by the Attorney General of Texas or his representative to obtain the approval of the Bonds by the Attorney General and if such officer or counsel determines that such ministerial changes are consistent with the intent and purpose of the Order, which determination shall be final. In the event that any officer of the District whose signature shall appear on any document shall cease to be such officer before the delivery of such document, such signature nevertheless shall be valid and sufficient for all purposes the same as if such officer had remained in office until such delivery

**Section 24. BOND INSURANCE.** The purchase of a municipal bond insurance policy from \_\_\_\_\_ (the "Insurer") as additional security for the Bonds is hereby approved. The printing of a legend describing the municipal bond insurance policy issued by the Insurer is hereby authorized. The payment of the premium to the Insurer in consideration for the issuance of said policy is hereby approved. The District shall comply with the provisions contained in the Municipal Bond Insurance Commitment issued by the Insurer (and as set forth in Exhibit F hereto) as if such provisions were set forth in this Order.

*[Execution page follows]*

**PASSED, APPROVED AND EFFECTIVE** this \_\_\_\_\_.

\_\_\_\_\_  
President of the Board of Directors  
Northwest Austin Municipal Utility District No. 1

ATTEST:

\_\_\_\_\_  
Secretary of the Board of Directors  
Northwest Austin Municipal Utility District No. 1

(SEAL)

[SIGNATURE PAGE TO BOND ORDER]

**SCHEDULE I**

**SCHEDULE OF REFUNDED BONDS**

<u>Bond to be Refunded</u>	<u>Original Principal Amount</u>	<u>Outstanding Principal Amount</u>	<u>Maturities to be Refunded</u>	<u>Principal Amount Refunded</u>	<u>Redemption Date/Price</u>
Unlimited Tax Bonds, Series 1997	\$1,400,000	\$1,130,000	2005-2019 (Inclusive)	\$1,130,000	12/31/04 @ par
Unlimited Tax Bonds, Series 1999	\$1,900,000	\$1,650,000	2007-2017 (Inclusive) and 2020	\$1,500,000	09/1/06 @ par

**EXHIBIT "A"**

**ESCROW AGREEMENT**

(See Separate Tab in this Transcript)

**EXHIBIT "B"**

**BOND PURCHASE AGREEMENT**

(See Separate Tab in this Transcript)

**EXHIBIT "C"**

**PAYING AGENT/REGISTRAR AGREEMENT**

(See Separate Tab in this Transcript)

## **EXHIBIT "D"**

### **CONTINUING DISCLOSURE**

The following information is referred to in Section 21(a) of this Order.

#### **Annual Financial Statements and Operating Data**

The financial information and operating data with respect to the District to be provided annually in accordance with such section as specified below:

- (1) Appendix A;
- (2) Table 1 - Rate and Fee Schedule;
- (3) Table 2 - Waterworks and Sewer Operating Statement;
- (4) Table 3 - Projected Debt Service Requirements;
- (5) Table 4 - Assessed Value;
- (6) Table 5 - Unlimited Tax Bonds Authorized but Unissued;
- (7) Table 6 - Outstanding Bonds;
- (8) Table 7 - Cash and Investment Balances;
- (9) Table 8 - Current Investments;
- (10) Table 9 - Classification of Assessed Valuation;
- (11) Table 10 - Tax Collections;
- (12) Table 11 - District Tax Rates; and
- (13) Table 12 - Principal Taxpayers.

#### **Accounting Principles**

The accounting principles referred to in such section are the accounting principles described in the notes to the financial statements referred to in paragraph 1 above.

**EXHIBIT "E"**

**ACCRETED VALUE**

**EXHIBIT "F"**

**MUNICIPAL BOND INSURANCE COMMITMENT**

**NEW ISSUE - Book-Entry-Only**

**PRELIMINARY OFFICIAL STATEMENT DATED NOVEMBER \_\_, 2004**

**NEW ISSUE-BOOK-ENTRY-ONLY**

**Rating: S&P "AAA"**

**See "MUNICIPAL BOND RATING AND INSURANCE"**

Delivery of the Bonds is subject to the opinion of Delgado, Acosta, Braden and Jones P.C. Bond Counsel to the effect that interest on the Bonds will be excludable from gross income for Federal income tax purposes under statutes, preliminary regulations, published rulings and court decisions existing on the date thereof, subject to the matters described under "TAX MATTERS" herein including the alternative minimum tax on corporations. The District has designated the Bonds as Qualified Tax-Exempt Obligations. See "TAX MATTERS - Qualified Tax-Exempt Obligations for Financial Institutions" herein.

**\$2,629,997.80**

**NORTHWEST AUSTIN MUNICIPAL UTILITY DISTRICT NO. 1**

**(A Political Subdivision of the State of Texas Located in Travis County, Texas)**

**UNLIMITED TAX REFUNDING BONDS, SERIES 2004**

**Dated: December 1, 2004**

**Due: September 1, as shown below**

Interest on the Bonds maturing on September 1, in each of the years 2005 through 2007, inclusive, (the "Premium Compound Interest Bonds"), will accrue from the date of delivery, will be compounded each March 1 and September 1 of each year, commencing March 1, 2005 and will be payable only upon maturity. Interest on the Bonds maturing on September 1 in each of the years 2008 through 2020 will accrue from December 1, 2004 and will be payable March 1 and September 1 of each year, commencing March 1, 2005. The Current Interest Bonds and the Premium Compound Interest Bonds are sometimes collectively referred to herein as the "Bonds." Principal on the Bonds, together with interest on the Premium Compound Interest Bonds, are payable upon surrender of the Bonds for payment at the designated office for payment of JPMorgan Chase Bank, N.A., the paying agent/registrant (the "Payment Agent/ Registrar"), in Dallas, Texas. Interest on the Current Interest Bonds will be payable to the registered owners thereof as shown on bond register (the "Registered Owners") on the 15<sup>th</sup> calendar day (whether or not a business day) of the month next preceding each interest by the Paying Agent/Registrar, by check, dated as of the interest payment date, and mailed on or before the interest payment date by the Paying Agent/ Registrar or pursuant to other customary means acceptable to the Registered Owner and the Paying Agent/ Registrar, at the risk and expense of the Registered Owner. The Bonds will be issued only in fully registered form. The Current Interest Bonds will be issued in the denomination of \$5,000 of principal amount or integrals thereof, and the Premium Compound Interest Bonds will be issued in amounts which mature in \$5000 denominations each, or integral multiples thereof, including both principle and interest. See "Appendix B- Schedule of Accreted Values of Premium Compound Interest Bonds."

The scheduled payment of principal of (or in the case of Premium Compound Interest Bonds, the accreted value) and interest on the Bonds when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Bonds by

**Maturities**

**\$94,997.80 Premium Compound Interest Bonds Schedule (No Accrued Interest)**

Initial Offering Price	Maturity (September 1)	Purchase Price per \$5,000 at Maturity	Initial Reoffering Yield	Total Payment at Maturity
	2005			\$ 110,000
	2006			90,000
	2007			160,000

**\$2,535,000 Current Interest Serial Bonds (Accrued Interest to Be Added)**

Initial							
Principal Amount	Interest Rate	Maturity (September 1)	Reoffering Yields	Principal Amount	Interest Rate	Maturity (September 1)	Reoffering Yields
\$ 160,000		2008		195,000		2015	
160,000		2009		220,000		2016	
185,000		2010		225,000		2017	
190,000		2011		225,000		2018	
190,000		2012		255,000		2019	
195,000		2013		145,000		2020	
190,000		2014					

\*Optional Redemption Provisions: The District reserves the right to redeem, prior to maturity, in integral multiples of \$5,000, those Bonds maturing September 1, 2015 through 2020, both inclusive, in whole or from time to time in part, on September 1, 2014, or on any date thereafter at a price of par plus accrued interest from the most recent interest payment date to the date fixed for redemption. See "THE BONDS- Redemption."

The initial reoffering yields indicated represent the lower of the yields resulting when priced to maturity or the first call date. The initial yields at which the Bonds will be priced will be established by and will be the sole responsibility of the Underwriter (as herein defined). The yields may be changed at any time at the discretion of the Underwriter. Accrued interest from December 1, 2004 to the date of delivery of the Bonds is to be added to the price.

The Bonds, when issued, will constitute valid and legally binding obligations of the District and will be payable from the proceeds of an annual ad valorem tax, without legal limitation to rate or amount, levied against taxable property within the District and a pledge of certain limited Net Revenues (as defined in the Bond Order), if any, of the District's System (as defined in the Bond Order). See "THE BONDS- Source of and Security for Payment." THE BONDS ARE SUBJECT TO SPECIAL INVESTMENT CONSIDERATIONS DESCRIBED HEREIN. See "INVESTMENT CONSIDERATIONS" herein.

The Bonds are offered, when, as and if issued by the District and accepted by the Underwriter, subject, among other things to the approval of the Initial Bonds by the Attorney General of Texas and the approval of certain legal matters by Delgado, Acosta, Braden & Jones P.C., Austin, Texas, Bond Counsel. Certain other legal matters will be passed upon for the District by its counsel, Potts & Reilly, L.L.P. and for the Underwriter by its Counsel, Cantey & Hanger, L.L.P., Austin, Texas. Delivery of the Bonds is expected on or about December \_\_, 2004, in Austin, Texas.

**CAPROCK SECURITIES, INC.**

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## USE OF INFORMATION IN OFFICIAL STATEMENT

For purposes of compliance with Rule 15c2 -12 of the Securities Exchange Commission (the "Rule"), this document constitutes a official statement of the District with respect to the Bonds that has been deemed "final" by the District as of its date except for the omission of no more than the information permitted by the Rule.

No dealer, broker, salesman or other person has been authorized to give any information or to make any representations other than those contained in this Preliminary Official Statement, and if given or made, such other information or representations must not be relied upon as having been authorized by the District.

*This Preliminary Official Statement does not alone constitute, and is not authorized by the District for use in connection with, an offer to sell or the solicitation of any offer to buy in any state in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation.*

All of the summaries of the statutes, orders, contracts, records and engineering and other related reports set forth in the Preliminary Official Statement are made subject to all of the provisions of such documents. These summaries do not purport to be complete statements of such provisions, and reference is made to such documents, copies of which are available from the Underwriter, for further information.

This Preliminary Official Statement contains, in part, estimates, assumptions and matters of opinion which are not intended as statements of fact, and no representation is made as to the correctness of such estimates, assumptions, or matters of opinion, or as to the likelihood that they will be realized. Any information and expressions of opinion herein contained are subject to change without notice, and neither the delivery of this "Preliminary Official Statement" nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the District or the other matters described herein since the date hereof. However, the District has agreed to keep this "Preliminary Official Statement" current by amendment or sticker to reflect material changes in the affairs of the District, and to the extent that information actually comes to its attention, other matters described in the "Preliminary Official Statement" until delivery of the Bonds to the Underwriter and thereafter only as specified in "PRELIMINARY OFFICIAL STATEMENT -Updating the Official Statement During Underwriting Period" and "CONTINUING DISCLOSURE OF INFORMATION."

NEITHER THE DISTRICT NOR THE UNDERWRITER MAKE ANY REPRESENTATION OR WARRANTY WITH RESPECT TO THE INFORMATION CONTAINED IN THIS PRELIMINARY OFFICIAL STATEMENT REGARDING THE DEPOSITORY TRUST COMPANY OR ITS BOOK-ENTRY-ONLY SYSTEM.

The prices and other terms with respect to the offering and sale of the Bonds may be changed from time to time by the Underwriter after the Bonds are released for sale, and the Bonds may be

offered and sold at prices other than the initial offering prices, including sales to dealers who may sell the Bonds into investment accounts. In connection with the offering of the Bonds, the Underwriter may over - allot or effect transactions which stabilize or maintain the market prices or the Bonds at levels above those which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time.

The District has no control over trading of the Bonds in the secondary market. Moreover, there is no guarantee that a secondary market will be made in the Bonds. In such a secondary market, the difference between the bid and asked price of utility district bonds may be greater than the difference between the bid and asked price of bonds of-comparable maturity and quality issued by more traditional municipal entities, as bonds of such entities are more generally bought, sold or traded in the secondary market.

### **Securities Laws**

No registration statement relating to the offer and sale of the Bonds has been filed with the Securities and Exchange Commission under the Securities Act of 1933, as amended, in reliance upon the exemptions provided thereunder. The Bonds have not been registered or qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor have the Bonds been registered or qualified under the securities laws of any other jurisdiction. The District assumes no responsibility for registration of the Bonds under the securities laws of any other jurisdiction in which the Bonds, may be offered, sold or otherwise transferred. This disclaimer of responsibility for registration or qualification for sale or other disposition of the Bonds shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration or qualification provisions in such other jurisdiction.

## **SALE AND DISTRIBUTION OF THE BONDS**

### **Underwriting**

The Underwriter listed on the cover page of this Preliminary Official Statement has agreed, subject to certain conditions, to purchase the Bonds from the District for \$ \_\_\_\_\_ (an amount equal to the principal amount of the Bonds, plus a premium on the Premium Compound Interest Bonds of \$ \_\_\_\_\_, less an original issue discount of \$ \_\_\_\_\_, less an Underwriter's discount of \$ \_\_\_\_\_, plus accrued interest on the Current Interest Bonds to the date of delivery.

## **MUNICIPAL BOND RATING AND INSURANCE**

In connection with the sale of the Bonds, the District has made application to Moody's Investors Service, Inc. ("Moody's") and Standard & Poor's Corporation, a division of The McGraw-Hill Companies, Inc. ("S&P") for a municipal bond rating and has received a "Aaa" and "AAA" respectively, based upon the delivery of a municipal bond insurance policy by \_\_\_\_\_. The District received an underlying rating of "Baa1" and "BBB+" from Moody's and S&P respectively. The current rating on the District's Series 2001 bonds is "Aaa" as a result of a municipal bond insurance policy issued by Ambac. The current

rating on the District's Series 1998 bonds is "Aaa" by Moody's as a result of a municipal bond insurance policy issued by FSA. The current rating on the District's Series 2004 bonds is "Aaa" by Moody's as a result of a municipal bond insurance policy issued by \_\_\_\_\_. An explanation of the significance of a rating may be obtained from the company furnishing the rating. The rating reflects only the respective view of such company, and the District makes no representation as to the appropriateness of the rating. There is no assurance that such rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by such rating company, if, in the judgment of such company circumstances so warrant. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price of the Bonds.

## **BOND INSURANCE**

### **Payment Pursuant to Financial Guaranty Insurance Policy**

\_\_\_\_\_ has made a commitment to issue a financial guaranty insurance policy (the "Financial Guaranty Insurance Policy") relating to the Obligations effective as of the date of issuance of the Obligations. Under the terms of the Financial Guaranty Insurance Policy, \_\_\_\_\_ will pay to JPMorgan Chase Bank, N.A. or any successor thereto (the "Insurance Trustee") that portion of the principal of and interest on the Obligations which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Obligor (as such terms are defined in the Financial Guaranty Insurance Policy). \_\_\_\_\_ will make such payments to the Insurance Trustee on the later of the date on which such principal and interest becomes Due for Payment or within one business day following the date on which \_\_\_\_\_ shall have received notice of Nonpayment from the Trustee/Paying Agent. The insurance will extend for the term of the Obligations and, once issued, cannot be canceled by \_\_\_\_\_.

The Financial Guaranty Insurance Policy will insure payment only on stated maturity dates and on mandatory sinking fund installment dates, in the case of principal, and on stated dates for payment, in the case of interest. If the Obligations become subject to mandatory redemption and insufficient funds are available for redemption of all outstanding Obligations, \_\_\_\_\_ will remain obligated to pay principal of and interest on outstanding Obligations on the originally scheduled interest and principal payment dates including mandatory sinking fund redemption dates. In the event of any acceleration of the principal of the Obligations, the insured payments will be made at such times and in such amounts as would have been made had there not been an acceleration.

In the event the Paying Agent has notice that any payment of principal of or interest on an Obligation which has become Due for Payment and which is made to a Holder by or on behalf of the Obligor has been deemed a preferential transfer and theretofore recovered from its registered owner pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such registered owner will be entitled to payment from \_\_\_\_\_ to the extent of such recovery of sufficient funds are not otherwise available.

The Financial Guaranty Insurance Policy does not insure any risk other than Nonpayment, as

defined in the Policy. Specifically, the Financial Guaranty Insurance Policy does not cover:

1. payment on acceleration, as a result of a call for redemption (other than mandatory sinking fund redemption) or as a result of any other advancement of maturity.
2. payment of any redemption, prepayment or acceleration premium.
3. nonpayment of principal or interest caused by the insolvency or negligence of any Trustee or Paying Agent, if any.

If it becomes necessary to call upon the Financial Guaranty Insurance Policy, payment of principal requires surrender of Obligations to the Insurance Trustee together with an appropriate instrument of assignment so as to permit ownership of such Obligations to be registered in the name of \_\_\_\_\_ to the extent of the payment under the Financial Guaranty Insurance Policy. Payment of interest pursuant to the Financial Guaranty Insurance Policy requires proof of Holder entitlement to interest payments and an appropriate assignment of the Holder's right to payment to \_\_\_\_\_.

Upon payment of the insurance benefits, \_\_\_\_\_ will become the owner of the Obligation, appurtenant coupon, if any, or right to payment of principal or interest on such Obligation and will be fully subrogated to the surrendering Holder's rights to payment.

[Insurance Company Description]

[Insurance Company Language]

## OFFICIAL STATEMENT SUMMARY

The following material is qualified in its entirety by the more detailed information and financial statements appearing elsewhere in this Preliminary Official Statement. The offering of the Bonds to potential investors is made only by means of this entire Preliminary Official Statement. No person is authorized to detach this summary from this Preliminary Official Statement or to otherwise use it without the entire Preliminary Official Statement.

### THE DISTRICT

- The District** Northwest Austin Municipal Utility District No. 1 (the "District") is a political subdivision of the State of Texas created by order of the Texas Water Commission, predecessor to the Texas Natural Resource Conservation Commission, adopted on March 16, 1988 and operates pursuant to Chapters 49 and 54 of the Texas Water Code. The District was created to provide water, wastewater and storm drainage to the approximately 709.7 acres within its boundaries, all of which lies within Travis County, Texas and within the city limits of the City of Austin, Texas. See The District-General.
- Location** The District, which encompasses approximately 709.7 acres, is located approximately three miles south of the intersection of Farm-to-Market Road 620 ("FM 620") and U. S. Highway 183 ("U. S. 183") and lies approximately twelve miles northwest of Austin's central business district.
- The Developers** The developers currently active within the District are (i) Canyon Creek Land Ltd., a Texas limited partnership ("Canyon Creek") whose corporate general partner (CapTex Land Corporation) is a Texas corporation wholly owned by Mr. John Simmons, Standard Pacific of Texas, a Delaware Corporation whose stock is traded on the New York Stock Exchange, (iii) Standard/Blanton LLC, a Delaware limited liability company ("Standard/Blanton") comprised of Standard Pacific of Texas and Blanton Development Company, a Texas Corporation and (iv) Weekley Homes, a Delaware Limited Partnership. Canyon Creek, Standard Pacific, Standard/Blanton and Weekley Homes are collectively referred to herein as the Developers. As of November 1, 2004, the Developers owned virtually all of the vacant lots and the acreage under development. See "THE DEVELOPERS."
- Status of Development** Of the approximate 709.7 acres within the District, approximately 565 acres are developable, of which approximately 562 (including approximately 57 commercial) acres (99%) have been or are

currently being developed with utility facilities. The District contains the Canyon Creek Subdivision, Sections 1, 11, 17, 17B, 17C, 18, 19A, 19B, 20, 21, 22, 23, 24, 25, 26, 27, 28, 29, 30, 31, 33 and 34 (490.79 acres, platted as 1,275 single family lots). An additional approximately 14.3 acres (26 single family lots) are currently being developed with utility facilities. As of November 1, 2004, the District contained 1198 completed homes, 22 homes under construction, 55 vacant single family lots, one 20,000 square foot office building, Chevron Service Center and two complete apartment complex containing \_\_\_ units located within the District, construction and approximately 3 remaining developable acres. See "THE DISTRICT - Historical and Current Status of Development."

**Builders**

Homebuilders active within the District are David Weekley Homes and Standard Pacific Homes. The sales price of homes being constructed ranges from \$210,000 to over \$400,000 with an average square footage of living space ranging from 2,200 to 4,600.

**THE BONDS**

**Description**

\$2,629,997.80\* Northwest Austin Municipal Utility District No. 1 Unlimited Tax Refunding Bonds, Series 2004 (the "Bonds") are issued pursuant to an order of the Districts Board of Directors (the "Bond Order"). The Current Interest Bonds will be issued in the aggregate principal amount of \$2,270,000 maturing annually in varying amounts on September 1 in the years 2008 through 2020. The Premium Compound Interest Bonds will be issued in the original principal amount of \$94,997.80 and will mature, together with interest accrued from initial delivery, on September 1 in each of the years 2005 through 2007. The Current Interest Bonds are offered in fully registered form in integral multiples of \$5,000 principal amount, and the Premium Compound Interest Bonds are offered in fully registered form in denominations which result in total amounts due at maturity of \$5,000 or integral multiples thereof. See "THE BONDS-General Description."

\* Preliminary- subject to change.

**Book-Entry-Only System**

The District intends to utilize the Book-Entry-Only System of The Depository Trust Company ("DTC"), but reserves the right on its behalf or on behalf of DTC to discontinue such system. Such Book-Entry-Only System will affect the method and timing of payment and the method of transfer relating to the Bonds. See "BOND INFORMATION – Book-Entry-Only System" herein.

Redemption	Bonds maturing in the years 2015 through 2020, inclusive, are subject to redemption in whole or from time to time in part at the option of the District on September 1, 2014, or on any date thereafter, at par plus accrued interest from the most recent interest payment date to the date of redemption. See "THE BONDS - Redemption."
Source of Payment	Principal of and interest on the Bonds are payable from the proceeds of a continuing direct annual ad valorem tax levied upon all taxable property within the District, which under Texas law is not limited as to rate or amount. The Bonds are further payable from and are secured by a pledge of certain limited net revenues (described herein), if any, the District receives in connection with the water, sanitary sewer and drainage system within the District, unless and until such pledge and lien are terminated as described herein (see "THE BONDS - Source of Payment"). Pursuant to the Consent Agreement with the City of Austin, all revenues generated from the sale of water and sanitary sewer service are paid by residents of the District directly to the City and are not available for payment of the principal and interest on the Bonds. The Bonds are obligations solely of Northwest Austin Municipal Utility District No. 1 and are not obligations of the City of Austin, Texas; Travis County, Texas; the State of Texas; or any entity other than the District. See "THE BONDS - Source of and Security for Payment."
Payment Record	The District has heretofore issued five series of new money bonds and one series of refunding bonds including: \$2,700,000 Unlimited Tax Bonds, Series 1992; \$2,000,000 Unlimited Tax Bonds, Series 1994; \$1,400,000 Unlimited Tax Bonds, Series 1997, \$3,924,231 Unlimited Tax Refunding Bonds, Series 1998 \$1,900,000 Unlimited Tax Bonds, Series 1999 and \$5,710,000 Unlimited Tax Bonds, Series 2001. The District has never defaulted in the timely payment of principal of or interest on its bonds. See "FINANCIAL STATEMENT - Outstanding Bonds."
Authority for Issuance	The Bonds are issued pursuant to Article XVI, Section 59 of the Texas Constitution and the general laws of the State of Texas, including Article 717k, Vernon's Annotated Civil Statutes, as amended, Chapters 49 and 54 of the Texas Water Code, as amended, and pursuant to an Order (the "Bond Order") adopted by the Board of Directors of the District. See "THE BONDS - Authority for Issuance."
Use of Proceeds	Proceeds from the sale of the Bonds will be used to establish an

escrow fund to advance refund an aggregate principal amount of \$2,630,000 of the District's outstanding unlimited tax bonds, constituting \$1,130,000 of the District's Series 1997 Bonds, and \$1,500,000 of the District's Series 1999 Bonds (collectively the "Refunded Bonds") and to pay costs of issuance of the Bonds. SEE "PLAN OF FINANCING-the Refunded Bonds," and "ESTIMATED SOURCES AND USES OF FUNDS."

**Bonds Authorized But  
Unissued**

At an election held on May 7, 1988 voters within the District authorized the issuance of \$21,110,000 of the bonds to be used for the purpose of constructing or acquiring water, wastewater and storm drainage facilities which are payable from ad valorem taxes. The District has previously issued five installments of bonds in aggregate principal amount of \$13,710,000, leaving \$7,400,000 principal amount of bonds remaining authorized but unissued. The District has filed a bond application with the TNRCC to issue approximately \$2,585,000 unlimited tax bonds in the Spring of 2005. See "FINANCIAL STATEMENT-Outstanding Bonds" and "THE BONDS-Future Debt."

**Municipal Bond Rating  
And Insurance**

*In connection with the sale of the Bonds, the District has made application to Moody's Investors Service, Inc. ("Moody's") and Standard & Poor's Corporation, a division of The McGraw-Hill Companies, Inc. ("S&P") for a municipal bond rating and has received a "Aaa" and "AAA" respectively, based upon the delivery of a municipal bond insurance policy by \_\_\_\_\_ ("\_\_\_\_\_"). The District received an underlying rating of "Baal" and "BBB+" from Moody's and S&P respectively. The current rating on the District's Series 2001 bonds is "Aaa" by Moody's as a result of a municipal bond insurance policy issued by "AMBAC(Ambac Financial Group, Inc.)." The current rating on the District's Series 1998 bonds is "Aaa" by Moody's as a result of a municipal bond insurance policy issued by Financial Security Assurance Inc. ("FSA").*

**Qualified Tax-Exempt  
Obligations**

The District has designated the Bonds as "qualified tax-exempt obligations" pursuant to section 265(b) of the Internal Revenue Code of 1986, as amended, and will represent that the total amount of tax-exempt bonds (including the Bonds) issued by it during calendar year 2004 is not reasonably expected to exceed \$10,000,000. See "TAX MATTERS - Qualified Tax-Exempt Obligations for Financial Institutions."

**Bond Counsel**

Delgado, Acosta Braden & Jones, P.C., Austin, Texas.

<b>General Counsel</b>	Potts & Reilly, L.L.P. Austin, Texas.
<b>Underwriter</b>	Caprock Securities, Inc. Austin, Texas.
<b>Engineer</b>	Schroeder Engineering Co., Austin, Texas.
<b>Verification Agent</b>	McGladrey & Pullen, LLP, Certified Public Accountants. See “VERIFICATION OF ESCROW SUFFICIENCY AND YIELDS.”

### **INVESTMENT CONSIDERATIONS**

The purchase and ownership of the Bonds involve certain investment considerations and all prospective purchasers are urged to examine carefully the Official Statement, including particularly the section captioned “INVESTMENT CONSIDERATIONS,” with respect to the investment security of the Bonds.

**SELECTED FINANCIAL INFORMATION**  
(Unaudited as of September 30, 2004)

2004 Assessed Valuation (100% of Estimated Market Value)		\$341,351,563(a)
Gross Debt Outstanding (after issuance of the Bonds and expected 2005 bonds)		\$14,496,026
Ratio of Gross Debt to 2004 Assessed Valuation		4.25%
2004 Tax Rate		
Debt Service	\$0.22	
Maintenance & Operations	<u>\$0.04</u>	
Total		<u>\$0.26</u>
Debt Service Fund Balance		\$728,204.02(b)
Average percentage of current tax collections - Tax Years 2000-2003		99.50%
Average percentage of total tax collections - Tax Years 2000-2003		99.92%
Average Annual Debt Service Requirement (2005/2026) of the Bonds, expected 2005 bonds and the Remaining Outstanding Bonds ("Average Requirement")		\$1,153,133
Tax Rate required to pay Average Requirement based upon 2004 Assessed Valuation at 95% collections		\$0.3556/100 A, V.
Maximum Annual Debt Service Requirement (2010) of the Bonds, expected 2005 bonds and the Remaining Outstanding Bonds ("Maximum Requirement")		\$1,228,529
Tax Rate required to pay Maximum Requirement based upon 2004 Assessed Valuation at 95% collections		\$0.3788/100 A, V.
Number of Active Single Family connections as of November 1, 2004		1,186(c)
Estimated Population as of November 1, 2004		5,861(d)

(a) As certified by the Travis County Appraisal District ("TCAD"). See "TAXING PROCEDURES".

(b) Includes Debt Service Fund as of September 30, 2004. Does not include \$814,928 in the General Fund (unaudited) or \$17,033 in the Construction Fund (unaudited) as of September 30, 2004, respectively. Neither Texas Law or the Bond Order requires that the District maintain any particular sum in the District's Debt Service Fund.

(c) Does not include any builder connections.

(d) Based on 3.5 residents per single-family connection and 2 residents per apartment unit.

**OFFICIAL STATEMENT**  
relating to  
**\$2, 629, 997.80\***  
**NORTHWEST AUSTIN MUNICIPAL UTILITY DISTRICT NO. 1**  
**(A Political Subdivision of the State of Texas Located in Travis County, Texas)**  
**Unlimited Tax Refunding Bonds, Series 2004**

**INTRODUCTION**

This Official Statement provides certain information in connection with the issuance by the Northwest Austin Municipal Utility District No. 1 (the "District") of its \$2,629,998.80 Unlimited Tax Refunding bonds, Series 2004 (the "Bonds").

The Bonds are issued pursuant to Article XVI, Section 59 of the Texas Constitution and the general laws of the State of Texas, including particularly Article 717k, Vernon's Annotated Texas Civil Statutes, as amended, Chapters 49 and 54 of the Texas Water Code, as amended, and pursuant to an order (the "Bond Order") adopted by the Board of Directors of Northwest Austin Municipal Utility District No.1 (the "District"), a political subdivision of the State of Texas located within Travis county, Texas.

The District intends to utilize the Book-Entry-Only System of The Depository Trust Company ("DTC"), but reserves the right on its behalf or on behalf of DTC to discontinue such system. Such Book-Entry-Only System will affect the method and timing of payment and the method of transfer relating to the Bonds. See "BOND INFORMATION – Book-Entry-Only System"

Included in this Preliminary Official Statement are descriptions of the Plan of Financing, the Bonds, the Bond Order, and certain information about the District and its financial condition. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained from the District upon payment of duplication costs.

\* Approximate, subject to change.

**PLAN OF FINANCING**

**Purpose**

At an election held on May 7, 1998, the District's voters authorized the issuance of an aggregate principal amount of \$21,110,000 of unlimited tax bonds, payable from ad valorem taxes unlimited as to rate or amount, for the general purposes of acquiring and constructing waterworks, sanitary sewer and storm drainage facilities for the District. The District has heretofore issued five installments of bonds in the aggregate principal amount of \$13,710,000 from such authorization (the "Outstanding Bonds"), of which \$11,911,027 remain outstanding, as of November 1, 2004. There currently remains \$7,400,000 authorized but unissued bonds from such voted authorization. The District has filed a bond application with the Texas Commission on Environmental Quality ("TCEQ") to issue approximately \$2,585,000 unlimited

tax bonds and anticipates issuing such bonds in early 2005.

The Bonds are being issued to (i) refund certain debt of the District in order to achieve debt service savings from 2005 through 2020, both inclusive, by advanced refunding \$2,630,000 in aggregate principal amount of bonds including \$1,130,000 of the District's Series 1997 Bonds and \$1,500,000 of the District's Series 1999 Bonds (collectively, the "Refunded Bonds") and (ii) pay certain costs of issuance of the bonds, including the cost of the municipal bond guaranty insurance policy. The refunding results in a net present value and gross debt service savings to the District.

**The Refunded Bonds (a)**

Proceeds of the Bonds will be applied to current refund the Series 1997 bonds and advance refund of the Series 1999 Bonds will be applied to current refund of the Series 1997 bonds and to pay certain costs of issuing the Bonds. The principal amounts and maturity dates of the Refunded Bonds are set forth below.

**The Refunded Bonds (a)**

Proceeds of the Bonds will be applied to current refund the Series 1997 bonds and advance refund the Series 1999 bonds and to pay certain costs of issuing the Bonds. The principal amounts and maturity dates of the Refunded Bonds are set forth below.

	Series 1997 Due September 1	Series 1999 Due September 1	Total
2005	50,000	-	50,000
2006	55,000	-	55,000
2007	55,000	75,000	130,000
2008	60,000	75,000	135,000
2009	60,000	75,000	135,000
2010	65,000	100,000	165,000
2011	70,000	100,000	170,000
2012	75,000	100,000	175,000
2013	80,000	100,000	180,000
2014	80,000	100,000	180,000
2015	85,000	100,000	185,000
2016	90,000	125,000	215,000
2017	95,000	125,000	220,000
2018	100,000	125,000	225,000
2019	110,000	150,000	260,000
2020	150,000	150,000	300,000
	<u>1,130,000</u>	<u>1,500,000</u>	<u>2,630,000</u>

Such bonds to be redeemed prior to maturity on the following dates at a price of par plus accrued interest to the redemption date. Series 1997 Bonds -12/31/2004 and Series 1999 Bonds - September 1, 2006.

**Remaining Outstanding Bonds**

The following bonds will remain outstanding after issuance of the Bonds (collectively, the "Remaining Outstanding Bonds"):

	Series 1998	Series 1999	Series 2001	
	Due March 1	Due September 1	Due September 1	
2005	59,299	75,000	20,000	154,299
2006	48,240	75,000	20,000	143,240
2007	38,490		20,000	58,490
2008	270,000		20,000	290,000
2009	285,000		20,000	305,000
2010	300,000		20,000	320,000
2011	315,000		20,000	335,000
2012	330,000		20,000	350,000
2013	345,000		20,000	365,000
2014	370,000		10,000	80,000
2015	390,000		10,000	400,000
2016	410,000		10,000	420,000
2017	155,000		145,000	300,000
2018	165,000		165,000	330,000
2019			320,000	320,000
2020			465,000	465,000
2021			650,000	650,000
2022			675,000	675,000
2023			720,000	720,000
2024			750,000	750,000
2025			800,000	800,000
2026			750,000	750,000
	<u>3,481,029</u>	<u>150,000</u>	<u>5,650,000</u>	<u>9,281,029</u>

## Escrow Agreement

The Refunded Bonds and the interest due thereon are to be paid on each principal or interest payment date and on the redemption dates from funds to be deposited with JPMorgan Chase Bank, as escrow agent (the "Escrow Agent") will enter into an escrow agreement (the "Escrow Agreement") effective on the date of delivery of the Bonds (currently scheduled for December 30, 2004) pursuant to which a portion of the proceeds of the sale of the Bonds will be invested in direct obligations of, or obligations the timely payment of principal of and interest on which are fully and unconditionally guaranteed by the United States of America and may not be called for redemption prior to maturity (the "Escrowed Maturities") and such Escrowed Maturities, along with cash, if any, will be deposited with the Escrow Agent in a segregated escrow account (the "Escrow Agreement") and applied to provide for scheduled payments of principal of an interest on the Refunded Bonds until their redemption date. At the time of delivery of the Bonds, McGladrey & Pullen, L.L.P., Certified Public Accountants, will verify that from the computations provided to them that the anticipated receipts from the Escrowed Securities and cash deposits if any listed in the Underwriter's schedules will be sufficient to pay when due principal, interest and premium, if any, of the Refunded Agreement, the Escrow Fund is irrevocably pledged to the payment of principal of and interest on the Refunded Bonds and will not be available to pay principal of or interest on the Bonds.

Upon the deposit of the Escrowed Securities and cash with the Escrow Agent, pursuant to the Escrow Agreement, the District will have effected the defeasance of the Refunded Bonds pursuant to the terms of the Bond Order. In the opinion of Bond Counsel, as a result of such deposit, firm banking and financial arrangements will have been made for the discharge and final payment of the Refunded Bonds pursuant to the Escrow Agreement, and such Refunded Bonds will be deemed under Texas law to be fully paid and no longer outstanding except for the purpose of being paid from the Escrow Fund.

**Estimated Sources and Uses of Funds**

The proceeds derived from the sale of the Bonds will be applied approximately as follows:

Sources of Funds:	
Bond Proceeds	\$ 2,629,997.80*
Premium or Compound Interest Bonds	249,494.60*
Accrued Interest on the Current Interest Bonds	7,440.92*
Less: Original Issue Discount	
Total Sources of Funds	2,886,933.32*
Uses of Funds:	
Purchase of Escrowed Securities	\$ 2,747,122.35*
Escrow Cash from Bond Proceeds	
Costs of Issuance	
Municipal Bond Insurance Premium	
Underwriters' Discount	
Accrued Interest	
Contingency	
Total Use of Funds	

\* Approximate, subject to change.

**THE BONDS**

**General Description**

The \$2,628,997.80 Northwest Austin Municipal Utility District Unlimited Tax Refunding Bonds, Series 2004, includes \$94,997.80 principal amount of Premium Compound Interest Bonds which will mature on September 1 in each of the years 2005 through 2007, together with interest accrued from initial delivery, and in the amounts in each of the years 2005 through 2007, together with interest accrued from initial delivery and in the amounts set forth on the cover page and \$2,535,000 principal amount of Current Interest Bonds which will mature on September 1 of the years and in principal amounts, and will bear interest from December 1, 2004 , at the rates per annum, all as set forth on the cover page. Interest on the Current Interest Bonds will be paid on March 1, 2005 and each September 1 and March 1 thereafter until maturity or earlier redemption. Interest on the Premium Compound Interest Bonds accrues from the date of initial delivery, is compounded semiannually on each March 1 and September commencing March 1,

2005, and is payable together with the principal of the Premium Compound Interest Bonds only at stated maturity. See "APPENDIX B-Schedule of Accreted Values for Premium Compound Interest Bonds."

The Bonds of each maturity will be issued in fully registered form in the denominations of \$5,000 or any integral multiple thereof for the Current Interest Bonds, and in the maturity amount of combined principal and interest equal to the \$5,000 or any integral multiple thereof for the premium Compound Interest Bonds. The principal of the Bonds and the interest on the Premium Compound Interest Bonds and redemption price on the Bonds will be payable at maturity or redemption upon presentation at the designated office for payment of JP Morgan Chase Bank, NA.

### **Optional Redemption**

The Current Interest Bonds maturing on or after September 1, 2015 are subject to redemption prior to maturity at the option of the District, in whole or from time to time in part, on September 1, 2014, and on any other date thereafter, at a redemption price equal to the principal amount thereof plus accrued interest from the most recent interest payment date to the date fixed for redemption. The Premium Compound Interest Bonds are not subject to redemption prior to their stated maturity.

Notice of Redemption.... At least 30 calendar days prior to the date fixed for any redemption of Bonds or portions thereof prior to maturity a written notice of such redemption shall be published once in a financial journal or publication of general circulation in the City of New York, New York or in the City of Austin, Texas. Notice shall also be sent by the Paying Agent by United States mail, first-class postage prepaid, at least 30 calendar days prior to the date fixed for redemption, to the registered owner of each Bond to be redeemed at its address as it appeared on the 45th calendar day prior to such redemption date and to major securities depositories and bond information services.

The Bonds of a denomination larger than \$5,000 may be redeemed in part (\$5,000 or any multiple thereof). Any Bond to be partially redeemed must be surrendered in exchange for one or more new Bonds of the same maturity for the unredeemed portion of the principal of the Bonds so surrendered. In the event of redemption of less than all of the Bonds, the particular Bonds to be redeemed shall be selected by the District, if less than all of the Bonds of a particular maturity are to be redeemed, the Paying Agent is required to select the Bonds of such maturity to be redeemed by lot.

### **Termination of Book-Entry-Only System**

The District is initially utilizing the book-entry-only system of the DTC. See "BOOK-ENTRY-ONLY SYSTEM." In the event that the Book-Entry-Only System is discontinued by DTC or the District, the following provisions will be applicable to the Bonds.

Payment... Principal of the Bonds will be payable at maturity to the registered owners as shown by the registration books maintained by the Paying Agent upon presentation and surrender of the

Bonds to the Paying Agent at the designated office for payment of the Paying Agent in Austin, Texas (the "Designated Payment/Transfer Office"). Interest on the Bonds will be payable by check or draft, dated as of the applicable interest payment date, sent by the Paying Agent by United States mail, fast class, postage prepaid, to the registered owners at their respective addresses shown on such records, or by such other method acceptable to the Paying Agent requested by registered owner at the risk and expense of the registered owner. If the date for the payment of the principal of or interest on the Bonds shall be a Saturday, Sunday, legal holiday or day on which banking institutions in the city where the Designated Payment/Transfer Office of the Paying Agent is located are required or authorized by law or executive order to close, then the date for such payment shall be the next succeeding day which is not a Saturday, Sunday, legal holiday or day on which banking institutions are required or authorized to close, and payment on such date shall for all purposes be deemed to have been made on the original date payment was due.

Registration... If the Book-Entry-Only system is discontinued, the Bonds may be transferred and re-registered on the registration books of the Paying Agent only upon presentation and surrender thereof to the Paying Agent/Registrar at the Designated Payment/Transfer Office. A Bond also may be exchanged for a Bond or Bonds of like maturity and interest and having a like aggregate principal amount or maturity amount, as the case may be, upon presentation and surrender at the Designated Payment/Transfer Office. All Bonds surrendered for transfer or exchange must be endorsed for assignment by the execution by the registered owner or his duly authorized agent of an assignment form on the Bonds or other instruction of transfer acceptable to the Paying Agent. Transfer and exchange of Bonds will be without expense or service charge to the registered owner, except for any tax or other governmental charges required to be paid with respect to such transfer or exchange. A new Bond or Bonds, in lieu of the Bond being transferred or exchanged, will be delivered by the Paying Agent/Registrar to the registered owner, at the Designated Payment/Transfer Office of the Paying Agent/Registrar or by United States mail, first-class, postage prepaid. To the extent possible, new Bonds issued in an exchange or transfer of Bonds will be delivered to the registered owner not more than three (3) business days after the receipt of the Bonds to be canceled in the exchange or transfer and the denominations of \$5,000 or any integral multiple thereof.

Limitation on Transfer of Bonds... Neither the District nor the Paying Agent shall be required to make any transfer, conversion or exchange to an assignee of the registered owner of the Bonds (i) during the period commencing on the close of business on the 15th calendar day of the month preceding each interest payment date (the "Record Date") and ending with the opening of business on the next following principal or interest payment date or (ii) with respect to any Bond called for redemption, in whole or in part, within forty-five (45) days of the date fixed for redemption; provided, however, such limitation of transfer shall not be applicable to an exchange by the registered owner of the uncalled balance of a Bond.

Replacement Bonds... If a Bond is mutilated, the Paying Agent will provide a replacement Bond in exchange for the mutilated bond. If a Bond is destroyed, lost or stolen, the Paying Agent will provide a replacement Bond upon (i) the filing by the registered owner with the Paying Agent of evidence satisfactory to the Paying Agent of the destruction, loss or theft of the Bond and the authenticity of the registered owner's ownership and (ii) the furnishing to the Paying Agent of

indemnification in an amount satisfactory to hold the District and the Paying Agent harmless. All expenses and charges associated with such indemnity and with the preparation, execution and delivery of a replacement Bond must be borne by the registered owner. The provisions of the Bond Order relating to the replacement Bonds are exclusive and the extent lawful, preclude all other rights and remedies with respect to the replacement and payment of mutilated, destroyed, lost or stolen Bonds.

### **Authority for Issuance**

The District has previously issued five installments of bonds in the aggregate principal amount \$13,710,000 of \$21,110,000 bonds authorized at an election held in the District on May 7, 1988 thereby leaving \$7,400,000 in District Bonds authorized but unissued. The District also has issued \$3,924,231 Series 1998 Unlimited Tax Refunding Bonds.

The Bonds are issued pursuant to the Bonds Order, Chapters 49 and 54 of the Texas Water Code, and Article XVI, Section 59 of the Texas Constitution and the general laws of the State of Texas, including Article 717k, Vernon's Annotated Texas Civil Statutes, as amended.

### **Source of and Security for Payment**

The Bonds are payable as to principal and interest from the proceeds of an annual ad valorem tax, without legal limit as to rate or amount, levied against taxable property within the District, and are further secured by a pledge of certain limited Net Revenues, (defined below), if any, of the System, all to the extent and subject to the conditions described below.

### **Tax Pledge**

The Board covenants in the Bond Order that, while any of the Bonds are outstanding and the District is in existence, it will levy an annual ad valorem tax and will undertake to collect such a tax, against taxable property within the District at a rate from year to year sufficient, full allowance being made for anticipated delinquencies, together with revenues and receipts from other sources which are legally available for such purposes, to pay interest on the Bonds as it becomes due, to provide a sinking fund for the paying of principal of the Bonds when due or the redemption price at any earlier required redemption date, to pay when due any other contractual obligations of the District payable in whole or in part from taxes, and to pay the expenses of assessing and collecting such tax. The net proceeds from taxes levied to pay debt service on the Bonds are required to be placed in a special account of the District designated its "Bond Fund" for the Bonds.

### **Limited Net Revenues Pledged**

Limited Net Revenues, if any, of the System are pledged and assigned in the Bond Order to the payment of the Bonds, and any future tax and revenue bonds issued by the District, all equally and ratably. The Bond Order provides for the termination of such pledge and assignment when and if the City of Austin dissolves the District and assumes all debts, liabilities and obligations of the "District Net Revenues" are defined in the Bond Order as all income or increment which the

District receives in connection with the waterworks and sewer system within the District, less such portion of such revenue income as reasonably may be required to provide for the administration, efficient operation, and adequate maintenance of such service facilities, and less the portion thereof derived from contracts with private corporations, municipalities and political subdivisions, which, under the terms of the authorizing resolutions, may be pledged for the requirements of the District's revenue bonds issued particularly to finance the facilities needed in performing any such contracts. AS STIPULATED IN THE CONSENT AGREEMENT, THE CITY OF AUSTIN OPERATES THE WATERWORKS AND SEWER SYSTEM WITHIN THE DISTRICT AND ALL REVENUES GENERATED FROM THE SALE OF WATER AND SANITARY SEWER SERVICE ARE PAID BY THE RESIDENTS OF THE DISTRICT DIRECTLY TO THE CITY AND ARE NOT AVAILABLE TO PAY INTEREST OR PRINCIPAL OF THE BONDS.

Dissolution of the District: Under Texas law, the District may be dissolved by the City of Austin (the "City") without the consent of the District or its residents on or after May 7, 2003. When the District is abolished, the City must assume the assets, functions and obligations of the District (including the Bonds), and the pledge of taxes and Net Revenues, if any, will terminate. No representation is made concerning the likelihood of dissolution or the ability of the City to make Debt Service Payments on the Bonds should dissolution occur.

### **Payment Record**

The District has heretofore issued five series of new money bonds and one series of refunding bonds including: \$2,700,000 Unlimited Tax Bonds, Series 1992; \$2,000,000 Unlimited Tax Bonds, Series 1994; \$1,400,000 Unlimited Tax Bonds, Series 1997, \$3,924,231 Unlimited Tax Refunding Bonds, Series 1998 \$1,900,000 Unlimited Tax Bonds, Series 1999 and \$5,710,000 Unlimited Tax Bonds Series 2001. The District has never defaulted on the timely payment of the principal of or interest on its bonds. See "FINANCIAL STATEMENT - Outstanding Bonds."

### **Funds**

The Bond Order creates or aforementioned creation, establishment and maintenance by the District of an Operating Fund, a Bond Fund (as a separate account within the District's interest and sinking fund) and a Construction Fund.

The Operating Fund provides for operation and maintenance of the System and payment of general and administrative expenses of the District. The District agrees in the Bond Order to deposit to the Operating Fund gross revenues from ownership and operation of the System except for certain contractually derived revenues described therein. The Operating Fund may be used solely (1) to pay reasonable administration, efficient operation, and adequate maintenance expenses of the System, (2) solely at the Board's discretion, to transfer from time to time any excess to the credit of the interest and sinking fund of the District when needed to pay the obligations of the District payable there from and (3) to the extent the balance of the interest and sinking fund of the District and tax collections available for deposit thereto are sufficient to pay when due the obligations of the District payable from such interest and sinking fund to pay any other expenses of the District which may be lawfully paid from the Operating Fund.

The Bond Order establishes the Bond Fund as an account within the District's interest and sinking fund to be used to pay principal of and interest on and Paying Agent fees in respect of the Bonds. The Bond Order requires that the District deposit to the credit of the Bond Fund (i) from the delivery of the Bonds to the Underwriter, the amount received from proceeds of the Bonds representing accrued interest on the Bonds together with any capitalized interest, (ii) all receipts of limited Net Revenues, if any, and District ad valorem taxes (and penalties and interest thereon) levied to pay debt service requirements on (or fees and expenses of the Paying Agent with respect of) the Bonds, (iii) excess amounts from the Operating Fund not necessary for the payment of reasonable administration, operation and maintenance expenses of the System and (iv) such other funds as the Board shall, at its option, deem advisable. The Bond Order requires that the Bond Fund be applied solely to provide for the payment of the principal or redemption price of and interest on the Bonds when due, and to pay fees to the Paying Agent when due.

### **Defeasance of Outstanding Bonds**

The Bond Order provides for the defeasance of the Bonds and the termination of the pledge of taxes, limited Net Revenues, if any, and all other covenants in the Bond Order under certain circumstances. Any Bond and the interest thereon shall be deemed to be paid, retired and no longer outstanding with/n the meaning of the Bond Order (a "Defeased Bond"), except to the extent provided below for the Paying Agent to continue payments and for the District to retain the right to call Defeased Bonds to be paid at maturity, when the payment of all principal and interest payable with respect to such Bond to the due date or dates thereof (whether such due date or dates be by reason of maturity, upon redemption, or otherwise) either (i) shall have been made or caused to be made in accordance with the terms thereof (including the giving of any required notice of redemption) or (ii) shall have been provided for on or before such due date by irrevocably depositing with or making available to the Paying Agent for such payment (1) lawful money of the United States of America sufficient to make such payment, (2) Defeasance Securities (defined below) that mature as to principal and interest in such amounts and at such times as will ensure the availability, without reinvestment, of sufficient money to provide for such payment or (3) any combination of (1) and (2) above, and when proper arrangements have been made by the District with the Paying Agent for the payment of its services until after all Defeased Bonds shall have become due and payable. At such time as a Bond shall be deemed to be a Defeased Bond, such Bond and the interest thereon shall no longer be secured by, payable from, or entitled to the benefits of, the ad valorem taxes levied and the limited Net Revenues pledged, as provided in the Bond Order, and such principal and interest shall be payable solely from such money or Defeasance Securities.

The deposit under clause (ii) above shall be deemed a payment of a Bond when proper notice of redemption of such Bonds shall have been given, in accordance with the Bond Order. Any money so deposited with the Paying Agent may at the discretion of the Board of Directors also be invested in Defeasance Securities, maturing in the amounts and at the times as set forth in the Bond Order, and all income from such Defeasance Securities received by the Paying Agent that is not required for the payment of the Bonds and interest thereon, with respect to which such money has been so deposited, shall be turned over to the Board of Directors.

All money or Defeasance Securities set aside and held in trust pursuant to the provisions of the Bond Order for the payment of principal of the Bonds and premium, if any, and interest thereon, shall be applied to and used solely for the payment of the particular Bonds and premium, if any, and interest thereon, with respect to which such money or Defeasance Securities have been so set aside in trust. Until all Defeased Bonds shall have become due and payable, the Paying Agent shall perform the services of Registrar for such Defeased Bonds the same as if they had not been defeased, and the District shall make proper arrangements to provide and pay for such services as required by the Bond Order.

If money or Defeasance Securities have been deposited or set aside with the Paying Agent for the payment of Bonds and such Bonds shall not have in fact been actually paid in full, no amendment of the defeasance provisions of the Bond Order shall be made without the consent of the registered owner of each Bond affected thereby.

**Retention of Rights.** To the extent that, upon the defeasance of any Defeased Bond to be paid at its maturity, the District retains the right under Texas law to later call that Defeased Bond for redemption in accordance with the provisions of the Order authorizing its issuance, the District may call such Defeased Bond for redemption upon complying with the provisions or Texas law and upon the satisfaction of the provisions set forth above regarding such Defeased Bond as though it was being defeased at the time of the exercised of the option to redeem the defeased Bonds and the effect of the redemption is taken into account in determining the sufficiency of the provisions made for the payment of the Defeased Bond.

**Investments.** Any Escrow agreement or other instrument entered into between the District and the Paying Agent pursuant to which money and/or Defeasance Securities are held by the Paying Agent for the payment of Defeased may contain provisions permitting the investment or reinvestment of such moneys in Defeasance Securities or the substitution of other Defeasance Securities upon the satisfaction of certain requirements. All income from such Defeasance Securities received by the Paying Agent which is not required for the payment of the Bonds and interest thereon, with respect to which such money has been so deposited, will be remitted to the Board of Directors.

For the purposes of these provisions, "Defeasance Securities" means (i) Federal Securities, (ii) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date the Board of Directors adopts or approves proceedings authorizing the issuance of refunding bonds or otherwise provide for the funding of an escrow to effect the defeasance of the Bonds are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent, and (iii) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that, on the date the Board of Directors adopts or approves proceedings authorizing the issuance of refunding bonds or otherwise provide for the funding of an escrow to effect the defeasance of the Bonds, are rated as to investment quality by a nationally recognized investment rating firm no less than "AAA" or its equivalent. For the purposes of these provisions, "Federal Securities" means direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of

America (including interest strips of the Resolution Funding Corporation).

### **Paying Agent/Registrar**

Principal of and semiannual interest on the Bonds will be paid by JPMorgan Chase Bank, N.A. having its office for payment in Dallas, Texas, the initial Paying Agent/Registrar (the "Paying Agent"). The Paying Agent must be a bank, trust company, financial institution or other entity duly qualified and equally authorized to serve and perform the duties as paying agent and registrar for the Bonds.

Provision is made in the Bond Order for the District to replace the Paying Agent by a resolution of the District giving notice to the Paying Agent of the termination of the appointment, stating the effective date of the termination and appointing a successor Paying Agent. If the Paying Agent is replaced by the District, the new Paying Agent shall be required to accept the previous Paying Agent's records and act in the same capacity as the previous Paying Agent. Any successor paying agent/registrar selected by the District shall be subject to the same qualification requirements as the Paying Agent. The successor paying agent/registrar, if any, shall be determined by the Board of Directors and written notice thereof, specifying the name and address of such successor paying agent/registrar will be sent by the District or the successor paying agent/registrar to each Registered Owner by first-class mail, postage prepaid.

### **Record Date**

The record date for payment of the interest on Bonds on any regularly scheduled interest payment date is defined as the fifteenth (15th) day of the month (whether or not a business day) preceding such interest payment date.

### **Issuance of Additional Debt**

The District may issue bonds necessary to provide those improvements and facilities for which the District was created, with the approval of the Commission and, in the case of bonds payable from taxes, the District's voters. Prior to and following the issuance of the Bonds, \$7,400,000 unlimited tax bonds authorized by the District's voters will remain unissued. In addition, voters may authorize the issuance of additional bonds or other contractual obligations secured by ad valorem taxes. The District also has the right to enter into certain other obligations including the issuance of revenue bonds and notes, bond anticipation notes and tax anticipation notes without voter approval. Neither Texas law nor the Bond Order imposes a limitation on the amount of additional debt which may be issued by the District. Any additional debt issued by the District may dilute the security of the Bonds. See "INVESTMENT CONSIDERATIONS."

### **Legal Investment and Eligibility to Secure Public Funds in Texas**

Pursuant to Section 49.186 of the Water Code, bonds, notes or other obligations issued by a municipal utility district "shall be legal and authorized investments for all banks, trust companies, building and loan associations, savings and loan associations, insurance companies

of all kinds and types, fiduciaries, and trustees, and for all interest and sinking funds and other public funds of the State, and all agencies, subdivisions, and instrumentalities of the State, including all counties, cities, towns, villages, school districts and all other kinds and types of districts, public agencies and bodies politic." Additionally, Section 49.186 of the Water Code provides that bonds, notes or other obligations issued by a municipal utility district are eligible and lawful security for all deposits of public funds of the State and all agencies, subdivisions and instrumentalities of the State. For political subdivisions in Texas which have adopted investment policies and guidelines in accordance with the Public Funds Investment Act (Texas Government Code, Chapter 2256), the Bonds may have to be assigned a rating of not less than "A" or its equivalent as to investment quality by a national rating agency before such obligations are eligible investments for sinking funds and other public funds.

The District makes no representation that the Bonds will be acceptable to banks, savings and loan associations or public entities for investment purposes or to secure deposits of public funds. The District has made no investigation of other laws, regulations or investment criteria which might apply to or otherwise limit the availability of the Bonds for investment or collateral purposes. Prospective purchasers are urged to carefully evaluate the investment quality of the Bonds and as to the acceptability of the Bonds for investment or collateral purposes.

### **Specific Tax Covenants**

In the Bond Order the District has covenanted with respect to, among other matters, the use of the proceeds of the Bonds and the manner financed therewith by persons other than state or local governmental units, and the manner in which the proceeds of the Bonds are to be invested. The District may cease to comply with any such covenant if it has received a written opinion of a nationally recognized bond counsel to the effect that regulations or rulings hereafter promulgated modify or expand provisions of the Internal Revenue Code of 1986, as amended (the "Code"), so that such covenant is ineffective or inapplicable or compliance with such covenant adversely affects the exemption from federal income taxation of interest on the Bonds under Section 103 of the Code.

### **Additional Covenants**

The District has additionally covenanted in the Bond Order that it will keep accurate records and accounts and employ an independent certified public accountant to audit and report on its financial affairs at the close of each fiscal year, such audits to be in accordance with applicable law, rules and regulations and open to inspection in the office of the District.

## **Remedies in Event of Default**

The Bond Order provides that, in addition to all other rights and remedies of any owner of Bonds provided by the laws of the State of Texas, in the event the District defaults in the observance or performance of any covenant in the Bond Order including payment when due of the principal of and interest on the Bonds, Registered Owners may apply for a writ of mandamus from a court of competent jurisdiction requiring the Board of Directors or other officers of the District to observe or perform such covenants.

The Bond Order provides no additional remedies to a Registered Owner. Specifically, the Bond Order does not provide for an appointment of a trustee to protect and enforce the interests of the Registered Owners or for the acceleration of maturity of the Bonds upon the occurrence of a default in the District's obligations. Consequently, the remedy of mandamus is a remedy which may have to be enforced from year to year by the Registered Owners.

Under Texas law, no judgment obtained against the District may be enforced by execution of a levy against the District's public purpose property. The Registered Owners themselves cannot foreclose on property within the District or sell property within the District in order to pay principal of or interest on the Bonds. In addition, the enforceability of the rights and remedies of the Registered Owners may be limited by federal bankruptcy laws or other similar laws affecting the rights of creditors of political subdivisions. See "INVESTMENT CONSIDERATIONS - Bankruptcy Limitation to Registered Owners' Rights".

## **Consolidation**

A district (such as the District) has the legal authority to consolidate with other districts and, in connection therewith, to provide for the consolidation of its water and wastewater systems with the water and wastewater system(s) of the district(s) with which it is consolidating. The revenues of the consolidated system may be pledged equally to all first lien bonds of the consolidating districts. No representation is made that the District will consolidate its water and wastewater system with any other district.

## **Alteration of Boundaries**

In certain circumstances, under Texas law the District may alter its boundaries to: 1) upon satisfying certain conditions, annex additional territory and 2) exclude land subject to taxation within the District that is not served by District facilities if the District simultaneously annexes land of equal acreage and value that may be practicably served by District facilities. No representation is made concerning the likelihood that the District would effect any change in its boundaries.

## **Approval of the Bonds**

The Attorney General of Texas must approve the legality of the Bonds prior to their delivery. The Attorney General of Texas does not pass upon or guarantee the quality of the Bonds as an investment, nor does he pass upon the adequacy or accuracy of the information contained in this

Official Statement.

### **No-Litigation Certificate**

The District will furnish to the Underwriter a certificate, dated as of the date of delivery of the Bonds, executed by both the President and Secretary of the Board, to the effect that no litigation of any nature has been tried or is then pending or threatened, either in state or federal courts, contesting or attacking the Bonds; reissuing or enjoining the issuance, execution or delivery of the Bonds; affecting the provisions made for the payment of or security for the Bonds; in any manner questioning the authority or proceedings for the issuance, execution, or delivery of the Bonds; or affecting the validity of the Bonds.

### **No Material Adverse Change**

The obligations of the Underwriter to take and pay for the Bonds, and of the District to deliver the Bonds, are subject to the condition that, up to the time of delivery of and receipt of payment for the bonds, there shall have been no material adverse change in the condition (financial or otherwise) of the District from that set forth or contemplated in the Preliminary Official Statement.

### **Amendments to the Bond Order**

The District may without the consent of or notice to any registered owners amend the Bond Order in any manner not detrimental to the interest of the registered owners, including the curing of an ambiguity, inconsistency, or formal defect or omission therein. In addition, the District may, with the written consent of the owners of a majority in principal amount of the Bonds then outstanding affected thereby, amend, add to, or rescind any of the provisions of the Bond Order, except that, without the consent of the owners of all of the Bonds affected, no such amendment, addition, or rescission may (1) extend the time or times of payment of the principal or interest on the Bonds, reduce the principal amount thereof or the rate of interest therein, change the place or places at, or the coin or currency in which, any Bond or the interest thereon is payable, or in any other way modify the terms of payment of the principal or interest on the Bonds, or (2) reduce the aggregate principal amount of Bonds required for consent to any such amendment, addition, or rescission. In addition, a state, consistent with federal law, may within the exercise of its police powers make such modifications in the terms and conditions of contractual covenants relating to the payment of indebtedness of its political subdivisions as are reasonable and necessary for attainment of an important public purpose.

### **BOOK-ENTRY-ONLY SYSTEM**

The Depository Trust Company ("DTC"), New York, New York, will act initially as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee). One fully registered certificate will be issued

for each maturity of the Bonds in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds securities that its participants ("Direct Participants") deposit with DTC. DTC also facilitates the settlement among Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Direct Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc., and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks, and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The rules applicable to DTC and its Participants are on file with the Securities and Exchange Commission.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interest in the Bonds are to be accomplished by entries made on the books of Direct or Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. The deposit of Bonds with DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to Cede & Co. If less than all of the Bonds within a maturity

are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. will consent or vote with respect to the Bonds. Under its usual procedures, DTC mails an Omnibus Proxy to the District as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to these Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Bonds will be made to DTC. DTC's practice is to credit Direct Participants' accounts on payment dates in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on payment dates. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Paying Agent/Registrar, the Underwriters or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of the District. Disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the District. Under such circumstances, in the event that a successor securities depository is not obtained, Bonds are required to be printed and delivered.

The District may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Bonds will be printed and delivered in accordance with the Bond Resolution.

In reading this Official Statement it should be understood that while the Bonds are in the Book-Entry-Only System, references in other sections of this Official Statement to registered owners should be read to include the person for which the Participant acquires an interest in the Bonds, but (i) all rights of ownership must be exercised through DTC and the Book-Entry-Only System, and (ii) except as described above, notices that are to be given to registered owners under the Bond Resolution will be given only to DTC.

## **INVESTMENT CONSIDERATIONS**

The Bonds, which are obligations of the District and are not obligations of the State of Texas; Travis County, Texas; Austin, Texas; or any other political subdivision, will be secured by a *continuing direct annual ad valorem tax, without legal limitation as to rate or amount, on all taxable property located within the District.* See "THE BONDS - Source of and Security for Payment". The ultimate security for payment of principal of and interest on the Bonds depends on the ability of the District to collect from the property owners within the District all taxes levied against the property, or in the event of foreclosure, on the value of the taxable property with respect to taxes levied by the District and by other taxing authorities. The collection by the

District of delinquent taxes owed to it and the enforcement by Registered Owners of the District's obligation to collect sufficient taxes may be a costly and lengthy process. Furthermore, the District cannot and does not make any representations that continued development of property within the District will accumulate or maintain taxable values sufficient to justify continued payment by property owners or that there will be a market for the property. See "Registered Owners' Remedies" below.

### **Factors Affecting Taxable Values and Tax Payments**

**Economic Factors and Interest Rates:** A substantial percentage of the taxable value of the District results from the current market value of single-family residences and developed lots. The market value of such homes and lots is related to general economic conditions affecting the demand for and taxable value of residences. Demand for lots and residential dwellings can be significantly affected by factors such as interest rates, credit availability, construction costs, energy availability and the prosperity and demographic characteristics of the urban center toward which the marketing of lots is directed. Decreased levels of construction activity would tend to restrict the growth of property values in the District or could adversely impact existing values.

Interest rates and the availability of mortgage and development funding have a direct impact on the construction activity, particularly short-term interest rates at which developers and homebuilders are able to obtain Financing for development and construction costs. Interest rate levels may affect the ability of a landowner with undeveloped property to undertake and complete development activities within the District. Because of the numerous and changing factors affecting the availability of funds, the District is unable to assess the future availability of such funds for continued development and construction within the District. In addition, although located approximately 12 miles from the central downtown business district of the City of Austin, the success of development within the District and growth of District taxable property values are, to a great extent, a function of the Austin metropolitan and regional economics.

**Competition:** The demand for single-family homes in the District could be affected by competition from other residential developments including other residential developments located in other utility districts located near the District. In addition to competition for new home sales from other developments, there are numerous previously owned homes in more established neighborhoods closer to downtown Austin that are for sale. Such homes could represent additional competition for homes proposed to be sold within the District.

The competitive position of the developers in the sale of developed lots and of prospective builders in the construction of single-family residential houses within the District is affected by most of the factors discussed in this section. Such a competitive position is directly related to the growth and maintenance of taxable values in the District and tax revenues to be received by the District. The District can give no assurance that building and marketing programs in the District by the developers will be implemented or, if implemented, will be successful.

**Developers Under No Obligation to the District:** The Developers have informed the Board of their current plans to continue to market lots within the District and that they have no current plans otherwise to sell their land within the District. However, the Developers are not obligated

to implement such plans on any particular schedule or at all. Thus, the furnishing of information related to the proposed development by the Developers should not be interpreted as such a commitment. The District makes no representation about the probability of development continuing in a timely manner or about the ability of the Developers, or any other subsequent landowner to whom such parties may sell all or a portion of their holdings within the District, to implement any plan of development. Furthermore, there is no restriction right to sell its land. The District can make no prediction as to the effects that current or future economic or governmental circumstances may have on any plans of the Developers. Failure to construct taxable improvements on developed lots and tracts and failure of Developers to develop its land would restrict the rate of growth of taxable value in the District. The District is also dependent upon the Developers (see "TAX DATA - Principal Taxpayers") for the timely payment of ad valorem taxes, and the District cannot predict what the future financial condition of the Developers will be or what effect, if any, such conditions may have on its ability to pay taxes. See "THE DEVELOPERS."

Impact on District Tax Rates: Assuming no further development or construction of taxable improvements, the value of the land and improvements currently within the District will be the major determinant of the ability or willingness of the District property owners to pay their taxes. The 2004 assessed valuation of the District is \$341,351,563 (see "FINANCIAL STATEMENT"). After issuance of the Bonds and the expected 2005 Bonds, the Maximum Annual Debt Service Requirement will be \$1,228,529 (2010) and the Average Annual Debt Service Requirement will be \$1,153,133 (2005 through 2026, inclusive). Assuming (1) no increase or decrease from the 2004 assessed valuation, and (2) no use of funds on hand, a tax rate of \$0.38 per \$100 assessed valuation, at a 95% collection rate would be necessary to pay the Maximum Annual Debt Service Requirement of \$1,228,529, and a tax rate of \$0.36 per \$100 assessed valuation at a 95% collection rate would be necessary to pay the Average Annual Debt Service Requirement of \$1,146,315. See "DEBT SERVICE REQUIREMENTS" and "TAX DATA - Tax Adequacy for Debt Service."

### **Undeveloped Acreage**

There are approximately 3 remaining developable acres of land within the District which have not been provided with internal water distribution, wastewater collection and/or storm drainage facilities necessary to the construction of taxable improvements. There are approximately 14.3 acres currently under construction for water, wastewater and drainage. The District makes no representation as to when or if such development will occur.

### **Tax Collections and Foreclosure Remedies**

The District has a right to seek judicial foreclosure on a tax lien, but such remedy may prove to be costly and time consuming and, since the future market or resale market, if any, of the taxable real property within the District is uncertain, there can be no assurance that such property could be sold and delinquent taxes paid. Additionally, the District's tax lien is on a parity with the liens of all other State and local taxing authorities on the property against which the taxes are levied. Registered Owners are entitled under Texas law to a writ of mandamus to compel the District to perform its obligations. Such remedy would have to be exercised upon each separate default and

may prove costly, time consuming and difficult to enforce. Furthermore, there is no trust indenture or trustee, and all legal actions would have to be taken on the initiative of, and be financed by, Registered Owners to enforce such remedies. The rights and remedies of the Registered Owners and the enforceability of the Bonds may also be limited by bankruptcy, reorganization and other similar laws affecting the enforcement of creditors' rights generally.

### **Registered Owners' Remedies**

In the event of default in the payment of principal of or interest on the Bonds, the Registered Owners have the right to seek a writ of mandamus, requiring the District to levy adequate taxes each year to make such payments. Except for mandamus, the Bond Order does not specifically provide for remedies to protect and enforce the interest of the Registered Owners. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. Although the Registered Owners could obtain a judgment against the District, such a judgment could not be enforced by direct levy and execution against the District's property. Further, the Registered Owners cannot themselves foreclose on property within the District or sell property within the District in order to pay the principal of and interest on the Bonds. The enforceability of the rights and remedies of the Registered Owners may further be limited by laws relating to bankruptcy, reorganization or other similar laws of general application affecting the rights of creditors of political subdivisions such as the District.

### **Bankruptcy Limitation to Registered Owners' Rights**

The enforceability of the rights and remedies of Registered Owners may be limited by laws relating to bankruptcy, reorganization or other similar laws of general application affecting the rights of creditors of political subdivisions such as the District. Subject to the requirements of Texas law discussed below, a political subdivision such as the District may voluntarily file a petition for relief from creditors under Chapter 9 of the Federal Bankruptcy Code, 11 USC sections 901-946. The filing of such petition would automatically stay the enforcement of Registered Owners' remedies, including mandamus and the foreclosure of tax liens upon property within the District discussed above. The automatic stay would remain in effect until the federal bankruptcy judge hearing the case dismissed the petition, enters an order granting relief from the stay or otherwise allows creditors to proceed against the petitioning political subdivision. A political subdivision, such as the District, may qualify as a debtor eligible to proceed in a Chapter 9 case only if it (1) is generally authorized to file for federal bankruptcy protection by applicable state law, (2) is insolvent or unable to meet its debts as they mature, (3) desires to effect a plan to adjust such debts, and (4) has either obtained the agreement of or negotiated in good faith with its creditors or is unable to negotiate with its creditors. Under Texas law a municipal utility district, such as the District, must obtain the approval of the Texas Commission on Environmental Quality ("TCEQ") as a condition to seeking relief under the Federal Bankruptcy Code. "TECQ" is required to investigate the financial condition of a financially troubled district and authorize such district to proceed under federal bankruptcy law only if such district has fully exercised its rights and powers under Texas law and remains unable to meet its debts and other obligations, as they mature.

Notwithstanding noncompliance by a district with Texas law requirements, a district could file a voluntary bankruptcy petition under Chapter 9, thereby involving the protection of the automatic stay until the bankruptcy court, after a hearing, dismisses the petition. A federal bankruptcy court is a court of equity and federal bankruptcy judges have considerable discretion in the conduct of bankruptcy proceedings and in making the decision of whether to grant the petitioning district relief from its creditors. While such a decision might be applicable, the concomitant delay and loss of remedies to the Registered Owners could potentially and adversely impair the value of the Registered Owner's claim.

If a petitioning district were allowed to proceed voluntarily under Chapter 9 of the Federal Bankruptcy Code, it could file a plan for an adjustment of its debts. If such a plan were confirmed by the bankruptcy court, it could, among other things, affect a Registered Owner by reducing or eliminating the amount of indebtedness, deferring or rearranging the debt service schedule, reducing or eliminating the interest rate, modifying or abrogating collateral or security arrangements, substituting (in whole or in part) other securities, and otherwise compromising and modifying the rights and remedies of the Registered Owner's claim against a district.

### **The Effect of the Financial Institutions Act of 1989 on Tax Collections of the District**

The "Financial Institutions Reform, Recovery and Enforcement Act of 1989" ("FIRREA"), enacted on August 9, 1989, contains certain provisions which affect the time for protesting property valuations, the fixing of tax liens, and the collection of penalties and interest on delinquent taxes on real property owned by the Federal Deposit Insurance Corporation ("FDIC") when the FDIC is acting as the conservator or receiver of an insolvent financial institution.

Under FIRREA real property held by the FDIC is still subject to ad valorem taxation, but such act states (i) that no real property of the FDIC shall be subject to foreclosure or sale without the consent of the FDIC and no involuntary liens shall attach to such property, (ii) the FDIC shall not be liable for any penalties or fines, including those arising from the failure to pay any real or personal property tax when due and (iii) notwithstanding failure of a person to challenge an appraisal in accordance with state law, such value shall be determined as of the period for which such tax is imposed.

There has been little judicial determination of the validity of the provisions of FIRREA or how they are to be construed and reconciled with respect to conflicting state laws. However, certain recent federal court decisions have held that the FDIC is not liable for statutory penalties and interest authorized by State property tax law, and that although a lien for taxes may exist against real property, such lien may not be foreclosed without the consent of the FDIC, and no liens for penalties, fines, interest, attorneys fees, costs of abstract and research fees exist against the real property for the failure of the FDIC or a prior property owner to pay ad valorem taxes when due. It is also not known whether the FDIC will attempt to claim the FIRILEA exemptions as to the time for contesting valuations and tax assessments made prior to and after the enactment of FIRREA. Accordingly, to the extent that the FIRREA provisions are valid and applicable to any property in the District, and to the extent that the FDIC attempts to enforce the same, these provisions may affect the timeliness of collection of taxes on property, if any, owned by the FDIC in the District, and may prevent the collection of penalties and interest on such taxes.

## **Marketability**

The District has no control over trading of the Bonds in the secondary market. Moreover, there is no assurance that a secondary market will be made in the Bonds. If there is a secondary market, the difference between the bid and asked price for the Bonds may be greater than the difference between the bid and asked price of bonds of comparable maturity and quality issued by more traditional issuers as such bonds are more generally bought, sold or traded in the secondary market.

## **Continuing Compliance with Certain Covenants**

Failure of the District to comply with certain covenants contained in the Bond Order on a continuing basis prior to the maturity of the Bonds could result in interest on the Bonds becoming taxable retroactively to the date of original issuance. See "TAX MATTERS."

## **Future Debt**

The District reserves in the Bond Order the right to issue the remaining \$7,400,000 authorized but unissued bonds (see "UNLIMITED TAX BONDS AUTHORIZED BUT UNISSUED"), and such additional bonds as may hereafter be approved by both the Board of Directors and voters of the District. The District has also reserved the right to issue certain other additional bonds, special project bonds, refunding bonds and other obligations described in the Bond Order. All of the remaining \$7,400,000 bonds which have heretofore been authorized by the voters of the District may be issued by the District, with the approval of the Commission, from time to time as improvement needs arise. If the District does issue future bonds or other debt obligations, such issuance could increase gross debt/property valuation ratios and might adversely affect the investment security of the Bonds.

To date, the Developers have advanced certain funds for construction of utilities for which it has not been reimbursed. Approximately \$2,117,402 will be reimbursable to the Developers for the development currently existing within the District (see "THE DISTRICT - Current Status of Development"). In the opinion of the District's Engineer, the \$7,400,000 authorized but unissued bonds should be sufficient to fully reimburse the Developers for the existing utility facilities and provide utility service to the remaining undeveloped but potentially developable acres within the District. The District anticipates that it will issue \$2,585,000 authorized but unissued bonds in early 2005. The District may issue the full amount of authorized but unissued bonds in the future. Each future issue of bonds is intended to be sold at the earliest practicable date consistent with the maintenance of a reasonable tax rate in the District (assuming projected increases in the value of taxable property made at the time of issuance of the bonds are accurate) see "THE DEVELOPER - Utility Development Agreements." The District does not employ any formula with respect to assessed valuations, tax collections or otherwise to limit the amount of parity bonds which it may issue. The issuance of additional bonds is subject to approval by the Commission pursuant to its rules regarding issuance and feasibility of bonds. In addition, future changes in health or environmental regulations could require the construction and financing of additional improvements without any corresponding increases in taxable value in-the District. See "THE BONDS -Issuance of Additional Debt."

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## DISTRICT MAP

## **THE DISTRICT**

### **General**

The District was created by order of the Texas Water Commission, (the "TWC"), predecessor to the Commission, adopted on March 16, 1988, and a confirmation election held within the District on May 7, 1988, and operates as a municipal utility district pursuant to the provisions of Chapters 49 and 54 of the Texas Water Code and other general statutes of the State of Texas applicable to municipal utility districts. The District is subject to the continuing supervision of the Commission and is located within the city limits of the City of Austin. (See "THE BONDS - SOURCE OF AND SECURITY FOR PAYMENT- Dissolution of the District.")

The District is empowered, among other things, to purchase, construct, operate and maintain all works, improvements, facilities and plants necessary for the supply and distribution of water; the collection, transportation and treatment of wastewater; and the control and diversion of storm water. The District may issue bonds and other forms of indebtedness to purchase or construct such facilities.

The Commission exercises continuing supervisory jurisdiction over the District. In order to obtain the consent for creation of the District from the City of Austin, within whose boundaries the District lies, the District is required to observe certain requirements of the City of Austin which limit the purposes for which the District may sell bonds to the acquisition, construction and improvement of waterworks, wastewater and drainage facilities; require approval by the City of Austin of District construction plans; and permit connections only to single-family lots and commercial or multi-family commercial platted reserves which have been approved by the Planning Commission of the City of Austin. Construction and operation of the District's System is subject to the regulatory jurisdiction of additional governmental agencies. See "THE SYSTEM - Regulation."

### **Management of the District**

#### **Board of Directors**

The Directors and officers of the District are listed below:

<b>Name</b>	<b>Title</b>	<b>Term Expires</b>	<b>Length of Service</b>
Don Zimmerman	President	2006	2.5 Years
William C. Ferguson	Vice President	2006	8 Years
Karen Temborius	Secretary	2008	8 Years
Edward L. Swarouth	Treasurer	2008	8 Years
George Frederickson	Director	2006	1 Year

All of the Directors listed above reside in the District. Directors are elected to staggered four-year terms. Elections are held in May of even-numbered years.

## **Consultants**

### **Tax Assessor/Collector**

Land and improvements in the District are being appraised for taxation by the Travis Central Appraisal District. The Tax Assessor Collector is elected by residents of Travis County, TX. Nelda Spears currently serves the District in this capacity under contract. Ms. Spears serves approximately 79 other special districts as Tax Assessor/Collector.

### **General Manager**

The District contracts with Severn Trent Environmental Service ("ST") to serve as General Manager for the District charged with the responsibility of providing bookkeeping services for the District. ST serves in a similar capacity for 9 other special districts in the Austin area.

### **Auditor**

The District's financial statements for the fiscal year ended September 30, 2003 were prepared by Maxwell Locke & Ritter LLP Certified Public Accountants. See "Appendix A" for a copy of the District's September 30, 2003 audited financial statements.

### **Engineer**

The District's consulting engineer is Schroeder Engineering Company (the "Engineer"). Such firm serves as consulting engineer to eleven other special districts.

### **Underwriter**

Caprock Securities, Inc. serves as the District's underwriter (the "Underwriter"). The fee for services rendered in connection with the issuance of the Bonds is based on the percentage of the Bonds actually issued, sold and delivered and, therefore, such fee is contingent upon the sale and delivery, of the Bonds.

### **Bond Counsel**

The District has engaged Delgado, Acosta, Braden & Jones, P.C., Austin, Texas as Bond Counsel in connection with the issuance of the District's Bonds. The fees of Bond Counsel are contingent upon the sale and delivery of the Bonds.

### **General Counsel**

The District employs Potts & Reilly, L.L.P. as general counsel. This firm also acts as counsel to the District on matters not related to the issuance of bonds and are compensated based on time charges actually incurred.

**Location**

The District contains 709.7 acres of land and is located in northwestern Travis County east of Farm-to-Market Road 620 ("FM 620") approximately midway between the intersections of FM 620 and Ranch Road 2222 and FM 620 and U.S. Highway 183, respectively. The majority of the District is located within the Round Rock Independent School District. However, a portion of the District is located within the Leander Independent School District.

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## Current Status of the Development

As of October 15, 2004, 490.79 acres within the District have been developed with water, sanitary sewer and storm drainage facilities, and street paving as Canyon Creek Subdivision, Sections, 1, 11, 17, 17B, 17C, 18, 19A, 19B, 20, 21, 22, 23, 24, 25, 26, 27, 28, 29, 30, 31, 33 and 34. According to the Developers, as of October 15, 2004, development within the District was as follows:

### I. Single Family

#### A. Developed with Utility Facilities

Single Family					
Section	Acreage	Platted Lots	Completed Homes	Homes Under Construction	Vacant Lots
Section 1	80.00	214	214		
Section 11	11.40	19	0		19
Section 17	20.88	68	68		
Section 17B	11.47	36	36		
Section 17C	11.29	43	43		
Section 18	19.20	58	58		
Section 19A	15.89	52	52		
Section 19B	11.40	41	41		
Section 20	14.93	50	50		
Section 21	29.50	111	111		
Section 22	17.50	56	56		
Section 23	26.06	43	43		
Section 24	28.90	35	34		1
Section 25	19.80	30	27		3
Section 26	18.20	68	68		
Section 27	22.61	95	95		
Section 28	38.40	62	37	6	19
Section 29	16.54	51	51		
Section 30	28.98	43	43		
Section 31	27.10	41	22	10	9
Section 33	11.44	45	45		
Section 34	9.30	14	4	6	4
<b>Subtotal</b>	<b>490.79</b>	<b>1275</b>	<b>1198</b>	<b>22</b>	<b>55</b>

#### B. Lots Platted; Utilities Under Construction

Section 32	14.30	26
<b>Total Single Family</b>	<b>505.09</b>	<b>1301.00</b>

### II. Commercial/Multi-Family/Parkland

#### A. Commercial/Multi-Family; Developed with Utility Facilities

Chevron	2.50(a)
Office Building	1.95(b)
Apartments	52.70(c)
<b>Subtotal</b>	<b>57.15</b>

#### B. Parkland

Dedication 72.65

#### C. Conservation Easement

Dedication 36.55

#### D. Remaining Commercial/Multi-Family/Developable Acreage

Dedication 3.00

**Total Commercial/Multi-Family/Parkland** **169.35**

**Total Undevelopable Acreage** **35.26**

**Total** **709.70**

(a) Chevron Service Center and Mini Market.

(b) 20,000 square foot office building owned by the Texas Methodist Foundation.

(c) Two apartment complexes totaling \_\_\_\_\_ units.

Currently there are two homebuilders constructing homes within the District: David Weekley Homes and Standard Pacific Homes. The sales price of homes being constructed ranges from \$210,000 to \$400,000 with an average square footage of living space ranging from 2,200 to 4,600. See "THE DEVELOPERS - Lot Sales Contracts."

### **Park and Conservation Easement**

The District includes an approximately 72 acre park and greenbelt area, which includes hike and bike trails and various other recreational facilities which was financed through a developer contribution of land and approximately \$224,000 in cash together with a grant of approximately \$500,000 from the Texas Parks and Wildlife Department. In addition, the District owns approximately 400 acres of conservation easement within and outside its boundaries.

### **Future Development**

Approximately 562 (including approximately 57.15 commercial) acres of land located in the District have been developed or are currently under development by Canyon Creek, Standard Pacific, Standard/Blanton and Weekley Homes, collectively referred to as the Developers as described below under "The Developers". The balance of the developable land located in the District is comprised of approximately 3 acres. The Developers own all of such approximate 3 acres available for future development which, according to the Developers, if developed in the future is expected to be developed as commercial developments.

### **City of Austin**

The District lies wholly within the corporate limits of the City of Austin, Texas. See "UTILITY AGREEMENT BETWEEN THE DISTRICT AND THE CITY OF AUSTIN."

### **UTILITY AGREEMENT BETWEEN THE DISTRICT AND THE CITY OF AUSTIN**

All the land in the District is located within the city limits of the City of Austin. Prior to the creation of the District, the City of Austin and the Developer's predecessor in interest, Nash Phillips/Copus, Inc. entered into an Agreement Concerning Creation and Operation of Northwest Austin Municipal Utility District No. 1 ("Consent Agreement") effective December 7, 1987. The Consent Agreement was approved and executed by the Board of Directors of the District after the District's creation. The Consent Agreement was subsequently amended on September 11, 1990, October 6, 1992 and February 28, 1995.

The Consent Agreement sets forth, among other things, the arrangement by which all land within the District will receive water and wastewater service from the City of Austin. The Consent Agreement provides that water service may be initially provided by the District's own water plant, but that upon availability of City of Austin water, the District would disconnect from its water plant, tie into the City of Austin water system and thereafter the City of Austin will provide water service. This disconnection and tie in occurred as of August 17, 1991. Water tap fees and capital recovery fees, as well as monthly water utility bills, are established by the City

of Austin and are paid directly to the City of Austin.

The Consent Agreement provides that the City of Austin will provide wastewater treatment for land located within the District. All wastewater collection is now provided directly by the City of Austin. Property owners within the District are required to pay sewer tap fees and capital recovery fees to the City of Austin for all new connections. In addition, monthly sewer bills are paid directly to the City of Austin. Wastewater service for all property in the District is anticipated in the Consent Agreement eventually to be provided by the City of Austin through its West Bull Creek Wastewater Interceptor or other agreed wastewater collection and transportation facilities of the City of Austin.

Pursuant to the Consent Agreement, the City of Austin provides retail water and wastewater service to customers within the District and provides operation and maintenance of those facilities.

The Agreement also contains various provisions regarding bond issuance, dissolution, land development, expansion of service area and assignment of the Agreement.

### **THE DEVELOPERS**

In general, the activities of a landowner or developer in a municipal utility district such as the District include purchasing the land within the future district; petitioning for creation of the district; designing the development; defining a marketing program; planning and scheduling building schedules; securing necessary governmental approvals and permits for development; arranging for the construction of roads and the installation of utilities and drainage facilities; and selling improved lots or commercial reserves to builders, other developers or third parties. Ordinarily, the developer pays one hundred percent (100%) of the costs of paving and amenity design and construction while the utility district finances the costs of the water supply and distribution, wastewater collection and treatment and drainage facilities. However, the Commission may require the developer to pay up to thirty (30%) of the cost of certain water distribution, wastewater collection and drainage facilities. While a landowner or developer is required by the Commission to pave streets and pay for its allocable portion of the costs of utilities to be financed by the district through a specific bond issue, if any, a developer is generally under no obligation to a district to undertake development activities with respect to other property it owns within a district. Furthermore, there is no restriction on a developer's right to sell any or all of the land which the developer owns within a district. In addition, the developer is ordinarily the major taxpayer within the district during the early stages of development. The relative success or failure of a developer to perform in the above-described capacities may affect the ability of a district to collect sufficient taxes to pay debt service and retire bonds.

### **Canyon Creek Land Ltd. and Canyon Creek Option**

On August 28, 1991, Canyon Creek Land Ltd. purchased 145 acres within the District and acquired an option to purchase the remainder of land within the District and certain property located adjacent to the District. Canyon Creek Land Ltd. is a Texas limited partnership ("Canyon Creek") the general partner of which is CapTex Land Corporation, a Texas corporation owned 100% by Mr. John Simmons. The limited partners of Canyon Creek are the Joseph C.M. Hall Revocable Trust, as a Class A limited partner, and J. David Trotter, John Simmons and Fred Eppright, as Class B limited partners. Canyon Creek has hired Blanton Development Company, a Texas Corporation whose President and sole shareholder is Perry Blanton to act as development manager to supervise the development and marketing of the property.

Since acquiring the property within the District, Canyon Creek has developed Canyon Creek, Sections 21 (111 lots on 29.5 acres), 26 (68 lots on 18.57 acres), 27 (95 lots on 22.61 acres), 17 (68 lots on 20.88 acres), 19A (52 lots on 15.89 acres), 19B (41 lots on 10.36 acres) and 33 (45 lots on 11.44 acres).

In January, 1994, Canyon Creek Option, Ltd., a Texas limited partnership ("CC Option"), whose general partner is CapTex Land Company, L.L.C., a Limited Liability Company ("CDC"), exercised its option to purchase approximately 1,074 acres including all of the remaining undeveloped acreage within the District and the majority of the acreage adjacent to the District. The limited partners of CC Option are the Joseph C. M. Hall Revocable Trust, as a Class A Limited Partner, and L David Trotter, John Simmons, Fred Eppright and Perry Blanton, as Class B Limited Partners. CC Option has hired Blanton Development Company to act as development manager to supervise the development and marketing of such property. The acreage was purchased by CC Option with cash contributed by its partners.

### **Standard Pacific of Texas**

In December, 1995, CC Option sold approximately 98 acres to Standard Pacific Homes a Delaware Corporation whose stock is traded on the New York Stock Exchange. Standard Pacific has hired Blanton Development Company to act as development manager to supervise the development and marketing of their property within the District. Standard-Pacific is currently developing Section 23 (43 lots on 11.81 acres) and Section 30 (43 lots on 11.99 acres) and owns another 19 lots on approximately 11.40 acres which are expected to be developed as single-family residences. Acquisition and development financing is being funded by corporate cash.

Standard Pacific builds homes in California, Arizona and Texas and most recently expanded into Colorado with the acquisition of The Writer Corporation in August 2000. For the fiscal year ended December 31, 2000, Standard Pacific had gross revenues of approximately \$1,317,995,000 with its homebuilding activities. Standard Pacific is subject to the informational requirements of the Securities and Exchange Act of 1934, as amended and in accordance therewith files reports and other information with the SEC. Copies of such material can be obtained by mail from the public reference section of the SEC, 450 Fifth Street, Washington D.C. 20549 at prescribed rates. In addition, such reports and other information may be obtained from the New York Stock Exchange.

### **Standard/Blanton LLC**

In January 1998, Standard/Blanton LLC, a Delaware limited liability company, comprised of Standard Pacific of Texas, a subsidiary of Standard Pacific Homes, a Delaware Corporation, and Blanton Development Company, a Texas Corporation whose President and sole shareholder is Mr. Perry Blanton, was established for the purpose of acquiring approximately 37.11 acres from CC Option and an option on another approximately 5.46 acres. In May, 1999, Standard/Blanton closed on their option. The approximately 37.11 acres includes 135 preliminary platted lots in Sections 17C, 29, and 30, and the 5.46 acres include an additional 22 lots in Section 22. Acquisition financing was funded by corporate cash while development financing is being funded by a line of credit provided by Bank of America.

### **Weekley Homes, L.P.**

In August 1999, CC Option sold approximately 36.65 acres to Weekley Homes, L.P., a Delaware Limited Partnership ("Weekley Homes"). According to Blanton Development Company, such acreage is being developed as single-family lots located in Sections 24, 25, 31 and 32. Weekley Homes has hired Blanton Development Company to act as development manager to supervise the development and marketing of their property within the District. Weekley Homes is currently developing Section 24 (37 lots on 10.94 acres) and Section 25 (32 lots on 8.54 acres) with water, sanitary sewer and storm drainage facilities, as well as street paving, and the development of the 10.94 acres of Section 24 is expected to be substantially completed within the next month. Weekley Homes also owns another approximately 17 acres in Sections 31 and 32 (preliminarily platted as 67 single family lots), which are expected to be developed with utility facilities in the future.

### **Homes Constructed**

Standard Pacific Homes currently plans to build homes on all its lots. According to representatives of Canyon Creek, the following number of homes have been completed and occupied in the Canyon Creek Subdivisions: 217 homes prior to 1992, 55 homes in 1992, 112 homes in 1993, 104 homes in 1994, 82 homes in 1995, 86 homes in 1996, 58 homes during 1997, 85 homes during 1998, 79 homes during 1999; 93 homes in 2000; and 14 homes during the first quarter of 2001.

## **THE SYSTEM**

### **Water, Sanitary Sewer and Drainage System**

Proceeds from the sale of the Outstanding Bonds together with certain non-reimbursable developer contributions have been used to fund the District's water, wastewater and drainage facilities serving residential subdivisions in the District.

*According to the Engineer, the water, sewer and drainage facilities acquired or constructed by the District (the "System") have been designed in accordance with accepted engineering practices and the regulations of the Texas Department of Health, Travis County, the City of Austin and the Commission. Construction and operation of the facilities are subject to the*

inspection of the City of Austin and the Commission, for determining compliance with approved construction plans, and by the Commission, the United States Environmental Protection Agency and various local agencies for compliance with environmental requirements.

### **Water Supply and Distribution**

The District receives its water supply from the City of Austin water system, which obtains surface water from the Colorado River. Pursuant to the Consent Agreement, the City agrees to sell and deliver all water necessary for domestic and commercial purposes by users within the District on a retail basis on the same terms and conditions as it would all other customers within the City. The sale and furnishing of water to the customers within the District shall be nondiscriminatory and uniform with the policies and ordinances relating to the City's utility service area. The supply of water to the City's customers within the District may be reasonably limited by the City on the same basis and to the same extent as to any other customer within the City's service area.

### **Wastewater Collection and Treatment**

Permanent wastewater treatment service for the District is provided by the City of Austin's Walnut Creek Wastewater Treatment Plant, which has a capacity of 75 million gallons per day average flow. The City has agreed to provide wastewater treatment service at the Walnut Creek Wastewater Treatment Plant for the ultimate development in the District. See "UTILITY AGREEMENT BETWEEN THE DISTRICT AND CITY OF AUSTIN."

### **100-Year Flood Plain**

Portions of the District along its eastern and southern boundaries are within the projected 100-year flood plain and are expected to be in designated drainage easements. No development is proposed in the 100-year flood plain.

### **Water and Wastewater Operations**

The Bonds are payable from the levy of an ad valorem tax, without legal limitation as to rate or amount, upon all taxable property in the District and are additionally payable from, and are secured by a pledge of and lien on the limited Net Revenues described under "THE BONDS - Source of Payment - Limited Net Revenues Pledged," if any, which the District receives in connection with the System. In addition, sources of Net Revenues are limited in so far as all revenues from the sale of water and sewer service are paid by residents of the District directly to the City. No prediction is made, nor can any assurance be given, that the System will produce Net Revenues available to pay principal of or interest on the Bonds.

### **Rate and Fees**

On August 17, 1991, the District transferred retail service responsibilities to the City of Austin pursuant to the Consent Agreement. The City of Austin provides water and wastewater service to utility customers within the District and charges rates equal to the current rates set by the city

for retail water and sewer service. Such rates are expected to be changed from time to time by the City. The City of Austin's water and wastewater rates are available from the City and have been filed by the City with each nationally recognized municipal securities information repository ("NRMSIRs") and the State of Texas state information depository (the "SID") as of March 2001. The City of Austin is responsible for maintaining and operating the System. In addition, the District collects certain tap fees from builders.

### General Fund Operating Statement

The following statement sets forth in condensed form the historical results of operations of the District's water and sewer system and park. Such summary has been prepared by the Underwriter for inclusion herein, based upon information obtained from the District's audited financial statements except for 2004, which were obtained from the District Operator. All water and sewer revenues are paid by the District residents to the City and the City pays all costs of operating and maintaining the System. Reference is made to such statements for further and complete information.

	<b>Fiscal Year Ending September 30</b>				
	2004(a)	2003	2002	2001	2000
Tax revenues including penalties	\$ 176,031	\$ 138,211	\$ 161,683	\$ 141,505	\$ 123,503
Tap Fees	25,200	18,900	22,575	5,250	72,450
Interest	9,011	9,645	14,051	31,401	30,417
Sale of easement	875				8,500
Miscellaneous		928	1,984		
<b>Total Revenues</b>	<u>211,116</u>	<u>167,684</u>	<u>200,293</u>	<u>178,156</u>	<u>234,870</u>
<b>Expenditures</b>					
Legal fees	41,987	49,088	33,388	29,289	25,401
Repairs and maintenance	35,060	34,751	39,466	27,937	23,949
Professional fees	3,068	14,650	-	-	-
Management fees	14,861	13,781	13,698	13,634	12,935
Audit fees	7,500	8,000	7,800	7,500	7,400
Tax appraisal/collection fees	957	910	1,108	989	848
Director fees/Payroll taxes	5,921	5,529	6,890	5,813	7,105
Engineering fees	3,389	4,187	13,645	15,923	15,006
Insurance	2,772	2,771	2,710	4,790	4,790
Miscellaneous	8,001	5,007	8,620	2,059	834
Capital Outlay		1,973	8,021		-
<b>Total Expenditures</b>	<u>123,516</u>	<u>140,647</u>	<u>135,346</u>	<u>107,934</u>	<u>98,268</u>
<b>NET REVENUES</b>	<u>87,600</u>	<u>27,037</u>	<u>64,947</u>	<u>70,222</u>	<u>136,602</u>

(a) unaudited

**Debt Service Requirements**  
**NORTHWEST AUSTIN MUNICIPAL UTILITY DISTRICT No. 1**  
**\$2,629,997.80 (a)**  
**UNLIMITED TAX REFUNDING BONDS SERIES 2004**  
**ISSUE DATE 12/1/2004**

Year Ending 9/30	Outstanding Bonds (b)			Series 2004 Bonds (a)			Expected Series 2005 Bonds (c)	Total
	Principal	Interest	Total	Principal	Interest	Total	Total	Debt Service Requirement
2005	154,298	653,407	807,705	60,315	118,962	179,278	121,172	1,108,155
2006	143,240	665,140	808,380	20,111	162,259	182,370	226,563	1,217,313
2007	58,490	670,490	728,980	14,571	237,799	252,370	227,500	1,208,850
2008	290,000	442,345	732,345	160,000	92,370	252,370	223,125	1,207,840
2009	305,000	429,446	734,446	160,000	88,370	248,370	223,750	1,206,566
2010	320,000	415,656	735,656	185,000	83,810	268,810	224,063	1,228,529
2011	335,000	400,994	735,994	190,000	78,075	268,075	224,063	1,228,132
2012	350,000	385,561	735,561	190,000	71,805	261,805	223,750	1,221,116
2013	365,000	369,348	734,348	195,000	65,345	260,345	223,125	1,217,818
2014	380,000	352,029	732,029	190,000	58,325	248,325	222,188	1,202,542
2015	400,000	333,951	733,951	195,000	51,295	246,295	225,938	1,206,184
2016	420,000	314,739	734,739	220,000	43,788	263,788	224,063	1,222,589
2017	300,000	300,907	600,907	225,000	35,098	260,098	226,875	1,087,880
2018	330,000	285,913	615,913	225,000	26,098	251,098	224,063	1,091,073
2019	320,000	273,579	593,579	255,000	16,873	271,873	225,938	1,091,389
2020	465,000	257,259	722,259	145,000	6,163	151,163	222,188	1,095,609
2021	650,000	233,544	883,544				223,125	1,106,669
2022	675,000	198,606	873,606				223,438	1,097,044
2023	720,000	162,325	882,325				223,125	1,105,450
2024	750,000	123,625	873,625				222,188	1,095,813
2025	800,000	83,313	883,313				225,625	1,108,938
2026	750,000	40,313	790,313				223,125	1,013,438
Totals	<u>9,281,029</u>	<u>7,392,487</u>	<u>16,673,516</u>	<u>2,629,998</u>	<u>1,236,432</u>	<u>3,866,430</u>	<u>4,828,990</u>	<u>25,368,936</u>

(a) Approximate, Subject to change

(b) Excludes the Refunded Bonds

(c) The District is expected to issue approximately \$2,585,000 Series 2005 Unlimited Tax Bonds in the first half of 2005.

Interest on the 2005 Bonds is assumed to be 6.25% for 21 years.

**Financial Statement**  
**Unaudited as of September 30, 2004**

2004 Assessed Valuation (100% of market Value)	\$341,351,563(a)
Gross Debt Outstanding	\$14,496,026(b)
Debt Service Fund Balance	\$728,204
General Fund Balance	\$814,928
Ratio of Gross Debt to 2004 Assessed Valuation	4.25%

Area of District: 709.7 acres

Estimated 2004 Population: 5,861 (c)

- (a) As certified by the Travis County Appraisal District ("TCAD"). See "TAXING PROCEDURES"
- (b) Includes the Bonds, the Remaining Outstanding Bonds (and the premium on the capital appreciation bonds issued in the Unlimited Tax Refunding Bonds, Series 1998), and the expected 2005 Bonds.
- (c) As of October 15, 2004. Based on 3.5 residents per active single family connection; 2 per apartment.

**Unlimited Tax Bonds Authorized but Unissued**

Date	Vote		Purpose	Authorized	Issued	
	For	0			to Date	
5/7/1988	1	0	Water, Sanitary Sewer & Drainage	\$21,110,000	\$13,710,000	\$7,400,000 (a)

(a) The District is expected to issue approximately \$2,585,000 new bonds in 2005 and is not expected to issue additional bonds thereafter.

**Outstanding Bonds**

Date of Issue	Series	Amount	Amount Outstanding 10/15/04
<b>A. New Money Issues</b>			
9/1/1992	1992	\$2,700,000	\$0
12/1/1994	1994	\$2,000,000	\$0
9/1/1997	1997	\$1,400,000	\$0 (a)
8/1/1999	1999	\$1,900,000	\$150,000 (a)
7/1/2001	2001	\$5,710,000	\$5,650,000
<b>Subtotal</b>		<b>\$13,710,000</b>	<b>\$5,800,000</b>
<b>B. Refundings</b>			
9/1/1998	1998	\$3,924,231	\$3,481,029
12/1/2004	2004	\$2,629,998 (b)	\$2,629,998 (b)
<b>Subtotal</b>		<b>\$6,554,229</b>	<b>\$6,111,027</b>
<b>Total</b>		<b>\$20,264,229</b>	<b>\$11,911,027</b>

(a) After issuance of 2004 Refunding Bonds

(b) The Bonds

## **Investment Authority and Investment Practices of the District**

Available District funds are invested as authorized by Texas Law and in accordance with investment policies approved by the Board of Directors. Both state law and the District's investment policies are subject to change.

Under Texas law, the District is authorized to invest in (1) obligations of the United States or its agencies and instrumentalities; (2) direct obligations of the State of Texas or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligation, the principal and interest of which is guaranteed or insured by or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating of not less than A or its equivalent; (6) bonds issued, assumed or guaranteed by the State of Israel; (7) certificates of deposit that are guaranteed or insured by the Federal Deposit Insurance Corporation or are secured as to principal by obligations described in the preceding clauses or in any other manner and amount provided by law for District deposits, (8) certificates of deposit and share certificates issued by a state or federal credit union domiciled in the State of Texas that are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund, or are secured as to principal by obligations described in clauses 1) through 6) or in any other manner and amount provided by law for District deposits, (9) fully collateralized repurchase agreements that have a defined termination date, are fully secured by obligations described in clause 1), and are placed through a primary government securities dealer or a financial institution doing business in the State of Texas, (10) bankers' acceptances with the remaining term of 270 days or less, if the short-term obligations of the accepting bank or its parent are rated at least A-1 or P-1 or the equivalent by at least one nationally recognized credit rating agency, (11) commercial paper that is rated at least A-1 or P-1 or the equivalent by either 1) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by the U.S. or state bank, (12) no-load money market mutual funds regulated by the Securities and Exchange Commission that have a dollar weighted average portfolio maturity of 90 days or less and include in their investment objectives the maintenance of a stable net asset value of \$1 for each share, and (13) no-load mutual funds registered with the Securities and Exchange Commission that have an average weighted maturity of less than two years, invests exclusively in obligations described in the preceding clauses, and are continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than AAA or its equivalent.

The District may invest in such obligations directly or through government investment pools that invest solely in such obligations provided that the pools are rated no lower than AAA or Aaa or an equivalent by at least one nationally recognized rating service. The District may also contract with an investment management firm registered under the Investment Advisers Act of 1940 (15 U.S.C. Section 80b-1 et seq.) or with the State Securities Board to provide for the investment and management of its public funds or other funds under its control for a term up to two years, but the District retains ultimate responsibility as fiduciary of its assets. In order to renew or

extend such a contract, the District must do so by order, ordinance or resolution. The District is specifically prohibited from investing in: 1) obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage backed security collateral and pays no principal; 2) obligations whose payment represents the principal stream of cash flow from the underlying mortgage backed security and bears no interest; 3) collateralized mortgage obligations that have a stated final maturity of greater than 10 years; and 4) collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in the market index.

Under Texas law, the District is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity, that address investment diversification, yield, maturity, and the quality and capability of investment management, and that includes a list of authorized investments for District funds, maximum allowable stated maturity of any individual investment and maximum average dollar-weighted maturity allowed for pooled fund groups. All District funds must be invested consistent with a formally adopted "Investment Strategy Statement" that specifically addresses each fund's investment. Each Investment Strategy Statement will describe its objectives concerning: 1) suitability of investment type, 2) preservation and safety of principal, 3) liquidity, 4) marketability of each investment, 5) diversification of the portfolio, and 6) yield.

Under Texas law District investments must be made "with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment considering the probable safety of capital and probable income to be derived." At least quarterly the investment officers of the District shall submit an investment report detailing: 1) the investment position of the District, 2) that all investment officers jointly prepared and signed the report, 3) the beginning market value, and any additions and changes to market value and the ending value of each pooled fund group, 4) the book value and market value of each separately listed asset at the beginning and end of the reporting period, 5) the maturity date of each separately invested asset, 6) the account or fund or pooled fund group for which each individual investment was acquired, and 7) the compliance of the investment portfolio as it relates to: (a) adopted investment strategies and (b) State law. No person may invest District funds without express written authority from the Board of Directors.

Under Texas law the District is additionally required to: 1) annually review its adopted policies and strategies, 2) require any investment officers with personal business relationships or relatives with the entity who are seeking to sell securities to the entity to disclose the relationship and file a statement with the Texas Ethics Commission and the Board of Directors, 3) require the registered principal of firms seeking to sell securities to the District to: a) receive and review the District's investment policy, b) acknowledge that reasonable controls and procedures have been implemented to preclude imprudent investment activities, and c) deliver a written statement attesting to these requirements; 4) in conjunction with its annual financial audit, perform a compliance audit of the management controls on investments and adherence to the District's investment policy, 5) provide specific investment training for the Treasurer and investment officers, 6) restrict reverse repurchase agreements to not more than 90 days and restrict the investment of reverse repurchase agreement funds to no greater than the term of the reverse

repurchase agreement, 7) restrict the investment in non-money market mutual funds of any portion of bond proceeds, reserves and funds held for debt service and to no more than 15% of the entity's monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service, and 8) require local government investment pools to conform to the new disclosure, rating, net asset value, yield calculation, and advisory board requirements.

### **Current Investments**

The District is currently invested in Tex-Pool the amount of \$1,504,225 as of September 30, 2004. This investment portfolio is generally representative of the District's investment practices. State law requires the District to mark its investments to market price each calendar quarter and upon the conclusion of each fiscal year, for the purpose of compliance with applicable accounting policies concerning the contents of the Districts audited financial statements.

### **Estimated Overlapping Debt Statement**

Other governmental entities whose boundaries overlap the District have outstanding bonds payable from ad valorem taxes. The following statement of direct and estimated overlapping ad valorem tax net debt was developed from several sources, including information contained in "Texas Municipal Reports," published by the Municipal Advisory Council of Texas. Except for the amount relating to the District, the District has not independently verified the accuracy or completeness of such information, and no person is entitled to rely upon information as being accurate or complete. Furthermore, certain of the entities listed below may have issued additional bonds since the dates stated in this table, and such entities may have programs requiring the issuance of substantial amounts of additional bonds, the amount of which cannot be determined.

## Overlapping Debt

Taxing Body	Net Debt		% of Overlapping Net Debt	Amount of Overlapping Net Debt
	Amount	As of		
Travis County	435,678,773	8/31/2004	0.55%	2,396,233
City of Austin	707,380,680	9/30/2003	0.67%	4,739,451
Round Rock Independent School District	378,379,131	6/30/2003	2.11%	7,983,800
Leander Independent School District	373,894,551	8/31/2004	0.08%	299,116
Austin Community College	98,910,000	8/31/2004	0.68%	672,588
<b>TOTAL ESTIMATED OVERLAPPING NET DEBT</b>				<b>\$16,091,187</b>
Northwest Austin Municipal Utility District No. 1 (after issuance of the Bonds and expected 2005 bonds)				
	<b>13,767,822</b>	9/30/2003	<b>100.00%</b>	13,767,822
<b>TOTAL ESTIMATED DIRECT AND OVERLAPPING NET DEBT</b>				<b>\$ 29,859,009</b>
Ratio of Direct and Overlapping Net Debt to 2004 Assessed Valuation				8.75%
Direct and Overlapping Net Debt per Acre				\$ 42,072.72

## Overlapping Taxes for 2003

Overlapping Entity	2003 Tax Rate per \$100 Assessed Valuation			
	Round Rock		Leander	
	ISD (b)	ISD (b)	ISD (b)	ISD (b)
Travis County	\$0.4918	\$0.4918	\$1,359	\$1,359
City of Austin	\$0.4928	\$0.4928	\$1,362	\$1,362
Round Rock Independent School District (a)	\$1.8642	\$0.0000	\$5,151	\$0
Leander Independent School District (a)	\$0.0000	\$1.8300	\$0	\$5,056
Austin Community College	\$0.0771	\$0.0771	\$213	\$213
The District	\$0.2600	\$0.2600	\$718	\$718
Total	<u>\$3,1859</u>	<u>\$3,1517</u>	<u>\$8,802</u>	<u>\$8,708</u>

(a) Portions of the District are located in these school districts

(b) Based upon a single family home with an average assessed valuation of \$276,288

## TAX DATA

### Classification of Assessed Valuation (a)

Type Property	2004		2003		2002	
	Amount	%	Amount	%	Amount	%
Single Family	323,024,072	95.0349	307,720,860	93.6379	316,902,781	92.2516
Multi-Family	8,291,660	2.4394	7,122,330	2.1673	8,964,828	2.6097
Vacant Lots	5,235,274	1.5402	11,652,418	3.5458	13,623,618	3.9659
Acreage	2,530,288	0.7444	824,475	0.2509	2,723,339	0.7928
Commercial	819,130	0.2410	1,308,463	0.3982	1,305,695	0.3801
<b>Total</b>	<b>339,900,424</b>		<b>328,628,546</b>		<b>343,520,261</b>	

(a) Reflects classification of assessed valuation as supplied by the Travis County Appraisal District (TCAD\*) prior to adjustments or exemptions. Such value may differ from the original certified assessed valuation, and any supplements or adjustments thereto, as supplied by TCAD.

### Tax Collections

The following statement of tax collections sets forth in condensed form the historical tax collection experience of the District. Such summary has been prepared by the Underwriter for inclusion herein based upon information from District audits and records of the District's Tax Assessor/ Collector. Reference is made to such audits and records for further and more complete information.

Tax Year	Assessed Valuation	Tax Rate	Tax Levy	Current Collections		Total Collections	
				Amount	Percent	Amount	Percent
2000	225,057,100	\$0.3620	814,707	814,398	99.96	816,155	100.18
2001	291,495,571	\$0.3577	1,042,680	1,036,178	99.38	1,037,419	99.50
2002	342,915,428	\$0.3150	1,092,849	1,083,566	99.15	1,088,943	99.64
2003	332,170,127	\$0.2632	874,272		0.00	877,610 (a)	100.38
2004	341,351,563	\$0.2600	887,514	(in process of collection)			

(a)Source: District Records

### District Tax Rates Total Tax Rate per \$100

#### assessed valuation

	2004	2003	2002	2001	2000	1999
Debt Service	\$0.2200	\$0.2105	\$0.2752	\$0.3022	\$0.2994	\$0.2950
Maintenance	\$0.0400	\$0.0527	\$0.0398	\$0.0555	\$0.0626	\$0.0670
<b>Total</b>	<b>\$0.2600</b>	<b>\$0.2632</b>	<b>\$0.3150</b>	<b>\$0.3577</b>	<b>\$0.3620</b>	<b>\$0.3620</b>

### District Bond Tax Rate Limitation

The District's tax rate for debt service on the Bonds is legally unlimited as to rate or amount.

### Maintenance Tax

The Board of Directors of the District has the statutory authority to levy and collect an annual ad valorem tax for planning, maintaining, repairing and operating the District's improvements, if such maintenance tax is authorized by a vote of the District's electors. Such tax would be in addition to taxes which the District is authorized to levy for paying principal of and interest on the Bonds, and any tax bonds which may be issued in the future. At an election held on May 7, 1988, voters within the District authorized a maintenance tax not to exceed \$1.50/\$100 assessed valuation. As shown above under "District Tax Rates," the District levied a 2004 maintenance and operation tax of \$0.04/\$100 assessed valuation.

### Principal Taxpayers

The following List of principal taxpayers was provided by the Travis County Appraisal District based on the 2004 tax roll of the District which reflects ownership as of January 1, 2004. Ownership changes subsequent to January 1, 2004 are not known to the District.

Taxpayer	Type Property	2004 A V
Western Rim Investors 2000-2	Apartments	\$24,101,500
Fairfield Canyon Creek II Ltd.	Apartments	\$6,291,660
Canyon Creek Option Ltd.	Acreage & Improvements	\$4,289,143
Time Warner Entertainment	Cable Utility	\$2,366,860
Standard Pacific of Texas I.P	Acreage & Improvements	\$2,358,247
Weekley Homes LP	Acreage & Improvements	\$1,484,127
Richard & Barbara Blount	Lots and Houses	\$709,149
Total		\$41,600,686
Percent of 2004 Assessed Value		12.19%

## Tax Adequacy for Debt Service

The calculations shown below assume, solely for purposes of illustration, no increase or decrease in assessed valuation from the 2004 assessed valuation and utilize tax rates adequate to service the District's total debt service requirements, including the Bonds (at an estimated interest rate of 3.86%), the Remaining Outstanding Bonds, and the expected 2005 bonds (at an estimated interest rate of 6.25%). No available debt service funds are reflected in these computations. See "INVESTMENT CONSIDERATIONS" - Impact on District Tax Rates.

Average Annual Debt Service on all proposed Bonds	\$1,153,133
\$0.36 Tax Rate on 2004 Assessed Valuation	
of \$341,351,563 @ 95% collections produces	\$1,167,422
Maximum Annual Debt Service Requirements on all proposed Bonds (2010)	\$1,228,529
\$0.38 Tax Rate on 2004 Assessed Valuation	
of \$341,351,563 @ 95% collections produces	\$1,232,279

### Debt Service Fund Management Index

Debt Service Requirements for year ending 9/30/2005	\$1,108,155
Debt Service Fund Balance as of 9/30/2004	\$728,204
2004 Tax Year Debt Service Levy @ 95% collections produces	\$648,568 (a)
Total Available for Debt Service	\$1,376,772

(a) The District levied a debt service tax of \$0.22 per \$100 Assessed Valuation in 2004.

## **TAXING PROCEDURES**

### **Authority to Levy Taxes**

The Board is authorized to levy an annual ad valorem tax on all taxable property within the District in an amount sufficient to pay the principal of and interest on the Bonds, their pro rata share of debt service on any contract tax bonds and any additional bonds or obligations payable from taxes which the District may hereafter issue (see "INVESTMENT CONSIDERATIONS - Future Debt") and to pay the expenses of assessing and collecting such taxes. The District agrees in the Bond Order to levy such a tax from year-to-year as described more fully herein under "THE BONDS -Source of and Security for Payment." Under Texas law, the Board is also authorized to levy and collect an ad valorem tax for the operation and maintenance of the District and its water and wastewater system and for the payment of certain contractual obligations, if authorized by its voters. See "TAX DATA - Tax Rate Limitation."

### **Property Tax Code and County-Wide Appraisal District**

The Texas Property Tax Code (the "Property Tax Code") specifies the taxing procedures of all political subdivisions of the State of Texas, including the District. Provisions of the Property Tax Code are complex and are not fully summarized herein.

The Property Tax Code requires, among other matters, county-wide appraisal and equalization of taxable property values and establishes in each county of the State of Texas an appraisal district with the responsibility for recording and appraising property for all taxing units within the county and an appraisal review board with responsibility for reviewing and equalizing the values established by the appraisal district. The Travis County Appraisal District (the "TCAD") has the responsibility for appraising property for all taxing units within Travis County, including the District. Such appraisal values are subject to review and change by the Travis County Appraisal Review Board (the "Appraisal Review Board"). The appraisal roll as approved by the Appraisal Review Board must be used by the District in establishing its tax roll and tax rate.

### **Property Subject to Taxation by the District**

General: Except for certain exemptions provided by Texas law, all real property, tangible personal property held or used for the production of income, mobile homes, and certain categories of intangible personal property with a tax situs in the District is subject to taxation by the District; however, no effort is expected to be made by the Appraisal District to include on the tax roll tangible or intangible personal property not devoted to commercial or industrial use. Principal categories of exempt property include: property owned by the State of Texas or its political subdivisions if the property is used for public purposes; property exempt from ad valorem taxation by federal law; income producing tangible personal property or mineral interests with a taxable value of less than \$500; certain property used for the control of air, water or land pollution; solar and wind power energy devices; certain non-profit cemeteries; farm products owned by the producer; and certain property owned by qualified charitable, religious, veterans, youth, or fraternal organizations. Goods, wares, ores and merchandise (other than oil, gas, or petroleum products) that are acquired in or imported into the state and forwarded out of

state within 175 days thereafter are also exempt. Property owned by a disabled veteran or by the spouse of certain children of a deceased disabled veteran or a veteran who died while on active duty is partially exempt to between \$5,000 and \$12,000 of assessed value depending upon the disability rating of the veteran. Also partially exempt, if approved by the Board or at an election called by the Board upon petition of at least 20% of the qualified voters who voted in the District's preceding election, are residence homesteads of certain persons who are disabled or at least 65 years old, not less than \$3,000 of appraised value or such higher amount as the Board or the District's voters may approve. The District's tax assessor/collector is authorized by statute to disregard such exemptions for the elderly and disabled if granting the exemptions would impair the District's obligation to pay tax supported debt incurred prior to adoption of the exemptions by the District.

**Residential Homestead:** The Board may exempt up to 20% of the market value of residential homesteads from ad valorem taxation. Such exemption would be in addition to any other applicable exemptions provided by law. However, if ad valorem taxes have previously been pledged for the payment of debt, then the Board may continue to levy and collect taxes against the exempted value of the homesteads until the debt is discharged if the cessation of the levy would impair the obligation of the contract by which the debt was created. The District has never adopted a general homestead exemption.

**Tax Abatement:** The City of Austin and Travis County may designate all or part of the area within the District as a reinvestment zone, and Travis County, Round Rock Independent School District, Leander Independent School District, the District, and the City of Austin may thereafter enter into tax abatement agreements with owners of real property within such zone. The tax abatement agreements may exempt from ad valorem taxation by the applicable taxing jurisdiction for a period of up to ten years, all or any part of any increase in the assessed valuation of property covered by the agreement over its assessed valuation in the year in which the agreement is executed, on the condition that the property owner make specified improvements or repairs to the property in conformity with a comprehensive plan. The District has not been designated as a reinvestment zone.

### **Valuation of Property for Taxation**

Generally, property in the District must be appraised by the TCAD at market value as of January 1 of each year. Once an appraisal roll is prepared and formally approved by the Appraisal Review Board, it is used by the District in establishing its tax rolls and tax rate. Assessments under the Property Tax Code are to be based on one hundred percent (100%) of market value, as such is defined in the Property Tax Code.

The Property Tax Code permits land designated for agricultural use, open space or timberland to be appraised at its value based on the land's capacity to produce agricultural or timber products rather than at its fair market value. The Property Tax Code permits under certain circumstances that residential real property inventory held by a person in the trade or business be valued at the price that such property would bring if sold as a unit to a purchaser who would continue the business. Landowners wishing to avail themselves of the agricultural use, open space or timberland designation or residential real property inventory designation must apply for the

designation and the appraiser is required by the Property Tax Code to act on each claimant's right to the designation individually. A claimant may waive the special valuation as to taxation by some political subdivisions while chiming it as to another. If a claimant receives the agricultural use designation and later loses it by changing the use of the property or selling it to an unqualified owner, the District can collect taxes based on the new use, including taxes for the previous three years for agricultural use and taxes for the previous five years for open space land and timberland.

The Property Tax Code requires the TCAD to implement a plan for periodic reappraisal of property. The plan must provide for appraisal of all real property in the TCAD at least once every three (3) years. It is not known what frequency of reappraisal will be utilized by the TCAD or whether reappraisals will be conducted on a zone or countywide basis. The District, however, at its expense has the right to obtain from the Appraisal District a current estimate of appraised values within the District or an estimate of any new property or improvements within the District. While such current estimate of appraised values may serve to indicate the rate and extent of growth of taxable values within the District, it cannot be used for establishing a tax rate within the District until such time as the TCAD chooses formally to include such values on its appraisal roll.

### **District and Taxpayer Remedies**

Under certain circumstances taxpayers and taxing units (such as the District), may appeal the orders of the Appraisal Review Board by filing a timely petition for review in State district court. In such event, the value of the property in question will be determined by the court or by a jury, if requested by any party. Additionally, taxing units may bring suit against the TCAD to compel compliance with the Property Tax Code.

The Property Tax Code sets forth notice and hearing procedures for certain tax rate increases by the District and provides for taxpayer referenda which could result in the repeal of certain tax increases. The Property Tax Code also establishes a procedure for notice to property owners of reappraisals reflecting increased property values, appraisals which are higher than renditions, and appraisals of property not previously on an appraisal roll.

### **Levy and Collection of Taxes**

The District is responsible for the levy and collection of its taxes unless it elects to transfer the collection functions to another governmental entity. By September 1 of each year, or as soon thereafter as practicable, the rate of taxation is set by the Board based upon the valuation of property within the District as of the preceding January 1. Taxes are due October 1, or when billed, whichever comes later, and become delinquent after January 31 of the following year. A delinquent tax incurs a penalty of six percent (6%) of the amount of the tax for the first calendar month it is delinquent, plus one percent (1%) for each additional month or portion of a month the tax remains unpaid prior to July 1 of the year in which it becomes delinquent. If the tax is not paid by July 1 of the year in which it becomes delinquent, the tax incurs a total penalty of twelve percent (12%) regardless of the number of months the tax has been delinquent and incurs an additional penalty of up to fifteen percent (15%) if imposed by the District. The delinquent tax

also accrues interest at a rate of one percent (1%) for each month or portion of a month it remains unpaid. The Property Tax Code also makes provision for the split payment of taxes, discounts for early payment and the postponement of the delinquency date of taxes under certain circumstances.

### **District's Rights In The Event Of Tax Delinquencies**

Taxes levied by the District are a personal obligation of the owner of the property on January 1 of the year for which the tax is imposed. On January 1 of each year, a tax lien attaches to property to secure the payment of all state and local taxes, penalties, and interest ultimately imposed for the year on the property. The lien exists in favor of the state of Texas and each local taxing unit, including the District, having power to tax the property. The District's tax lien is on a parity with tax liens of such other taxing units. See "FINANCIAL STATEMENT - Overlapping Taxes for 2004." A tax lien on real property takes priority over the claim of most creditors and other holders of liens on the property encumbered by the tax lien, whether or not the debt nor lien existed before the attachment of the tax lien; however, whether a lien of the United States is on a parity with or takes priority over a tax lien of the District is determined by applicable federal law. Personal property under certain circumstances is subject to seizure and sale for the payment of delinquent taxes, penalty, and interest.

At any time after taxes on property become delinquent, the District may file suit to foreclose the lien securing payment of the tax, to enforce personal liability for the tax, or both. In filing a suit to foreclose a tax lien on real property, the District must join other taxing units that have claims for delinquent taxes against all or part of the same property. Collection of delinquent taxes may be adversely affected by the amount of taxes owed to other taxing units, by the effects of market conditions on the foreclosure sale price, by taxpayer redemption rights (a taxpayer may redeem property within two years after the purchaser's deed issued at the foreclosure sale is filed in the county records) or by bankruptcy proceedings which restrict the collection of taxpayer debts. See "INVESTMENT CONSIDERATIONS -General - Tax Collections and Foreclosure Remedies."

### **Effect of FIRREA on Tax Collections**

The "Financial Institutions Reform, Recovery and Enforcement Act of 1989" ("FIRREA") contains provisions which affect the time for protesting property valuations, the fixing of tax liens and the collection of penalties and interest on delinquent taxes on real property owned by the Federal Deposit Insurance Corporation ("FDIC") when the FDIC is acting as the conservator or receiver of an insolvent financial institution.

Under FIRREA, real property held by the FDIC is still subject to ad valorem taxation; but such act states (i) that no real property of the FDIC shall be subject to foreclosure or sale without the consent of the FDIC and no involuntary lien shall attach to such property, (ii) the FDIC shall not be liable for any penalties or fees, including those arising from the failure to pay any real property taxes when due and (iii) notwithstanding the failure of a person to challenge an appraisal in accordance with state law, such value shall be determined as of the period for which such tax is imposed.

To the extent that the FIRREA provisions are valid and applicable to any property in the District, and to the extent that the FDIC attempts to enforce the same, these provisions may affect the timeliness of collection of taxes on property owned by the FDIC in the District, and may prevent the collection of penalties and interest on such taxes.

## **LEGAL MATTERS**

### **Legal Opinions**

Issuance of the Bonds is subject to the approving legal opinion of the Attorney General of Texas to the effect that the initial Bonds are valid and binding obligations of the District payable from the proceeds of an annual ad valorem tax levied, without legal limit as to rate or amount, upon all taxable property within the District. Issuance of the Bonds is also subject to the legal opinion of Delgado, Acosta Braden & Jones, P.C. ("Bond Counsel"), based upon examination of a transcript of the proceedings incident to authorization and issuance of the Bonds, to the effect that the Bonds are valid and binding obligations of the District payable from the sources and enforceable in accordance with the terms and conditions described therein, except to the extent that the enforceability thereof may be affected by bankruptcy, insolvency, reorganization, moratorium, or other similar laws affecting creditors' rights or the exercise of judicial discretion in accordance with general principles of equity. Bond Counsel's, legal opinion will also address the matters described below under "TAX MATTERS." Such opinions will express no opinion with respect to the sufficiency of the security for or the marketability of the Bonds. In connection with the transactions described in this Official Statement, Delgado, Acosta Braden & Jones, P.C represents only the District.

The legal fees to be paid Bond Counsel for services rendered in connection with the issuance of the Bonds are based upon a percentage of Bonds actually issued, sold and delivered, and therefore, such fees are contingent upon the sale and delivery of the Bonds.

### **No-Litigation Certificate**

The District will furnish to the Underwriter a certificate, dated as of the date of delivery of the Bonds, executed by both the President and Secretary of the Board, to the effect that no litigation of any nature has been filed or is then pending or threatened, either in state or federal courts, contesting or attacking the Bonds; restraining or enjoining the issuance, execution or delivery of the Bonds; affecting the provisions made for the payment of or security for the Bonds; in any manner questioning the authority or proceedings for the issuance, execution, or delivery of the Bonds; or affecting the validity of the Bonds.

### **No Material Adverse Change**

The obligations of the Underwriter to take and pay for the Bonds, and of the District to deliver the Bonds, are subject to the condition that, up to the time of delivery of and receipt of payment for the Bonds, there shall have been no material adverse change in the condition (financial or otherwise) of the District from that set forth or contemplated in the Preliminary Official

Statement.

### **City Lawsuit**

Texas law requires that municipality utility districts located within the extraterritorial jurisdiction or the corporate boundaries of a city obtain the city's consent prior to creation of the district. In 1987, after various administrative and judicial actions, the City of Austin (the City) entered into a contract with the developer of the Canyon Creek subdivision, thereby giving the City's consent to the creation of the Northwest Austin Municipal Utility District Number 1 (the District). Section 7.2 of this contract permits the City to charge its full ad valorem tax over and above the District's own ad valorem tax.

The District and individual homeowners brought suit seeking a declaration that section 7.2 of the contract violates Texas law, specifically section 54.016(f) of the Texas Water Code. The trial court granted the City's plea to the jurisdiction in which the City argued that the individual homeowners did not have standing to bring suit. The trial court also granted the City's partial motion for summary judgment that the District was barred by laches and the statute of limitations. The trial court also ruled that the contract between the City and District was not an allocation agreement that would trigger application of section 54.016(f) and that the City's collection of its full ad valorem tax was valid under the contract. The District has appealed the trial court's order to the Austin Court of Appeals. Both parties have filed appellate briefs on the issues and the case is pending before the court of appeals.

Resolution of this lawsuit will not affect the District's financial ability to repay any indebtedness. If the District is successful on appeal, the City may have to adjust the ad valorem tax rate assessed upon property within the District, and possibly pay some refunds to homeowners, but there will be no order that will reduce the District's rate below an amount necessary to allow the District to repay its indebtedness. Therefore, the litigation will have no effect on the District's ability to assess and collect ad valorem taxes in order to satisfy any indebtedness.

## TAX MATTERS

### Opinion

On the date of initial delivery of the Bonds, Delgado, Acosta Braden & Jones, P.C., Austin, Texas, Bond Counsel, will render their opinion that, in accordance with statutes, regulations, published rulings and court decisions existing on the date thereof ("Existing Law"), (1) interest on the Bonds for federal income tax purposes will be excludable from the "gross income" of the holders thereof and (2) the Bonds will not be treated as "specified private activity bonds" the interest on which would be included as an alternative minimum tax preference item under section 57(a)(5) of the Internal Revenue Code of 1986 (the "Code"). Except as stated above, Bond Counsel will express no opinion as to any other federal, state or local tax consequences of the purchase, ownership or disposition of the Bonds. See "'APPENDIX D" Form of Opinion of Bond Counsel."

In rendering their opinion, Bond Counsel will rely upon (a) certain information and representations of the District, including information and representations contained in the District's federal tax certificate, and (b) covenants of the District contained in the Bond documents relating to certain matters, including arbitrage and the use of the proceeds of the Bonds and the property financed or refinanced therewith. Although it is expected that the Bonds will qualify as tax-exempt obligations for federal income tax purposes as of the date of issuance, the tax-exempt status of the Bonds could be affected by future events. However, future events beyond the control of the District, as well as the failure to observe the aforementioned representations or covenants, could cause the interest on the Bonds to become taxable retroactively to the date of issuance.

Bond Counsel's opinion represents its legal judgment based upon its review of Existing Law and the reliance on the aforementioned information, representations and covenants. Bond Counsel's opinion is not a guarantee of a result. The Existing Law is subject to change by the Congress and to subsequent judicial and administrative interpretation by the courts and the Department of the Treasury. There can be no assurance that such Existing Law or the interpretation thereof will not be changed in a manner which would adversely affect the tax treatment of the purchase, ownership or disposition of the Bonds.

Bond Counsel's opinion represents its legal judgment based upon its review of Existing Law and the representations of the District that it deems relevant to render such opinion and is not a guarantee of a result. No assurances can be given as to whether or not the Internal Revenue Service will commence an audit of the Bonds, or as to whether the Internal Revenue Service would agree with the opinion of Bond Counsel. If an audit is commenced, under current procedures the Internal Revenue Service is likely to treat the District as the taxpayer and the Bondholders may have no right to participate in such procedure. No additional interest will be paid upon any determination of taxability.

## **Federal Income Tax Accounting Treatment of Original Issue Discount**

The initial public offering price to be paid for one or more maturities of the Bonds (the "Original Issue Discount Bonds") may be less than the principal amount thereof or one or more periods for the payment of interest on the bonds may not be equal to the accrual period or be in excess of one year. In such event, the difference between (i) the "stated redemption price at maturity" of each Original Issue Discount Bond, and (ii) the initial offering price to the public of such Original Issue Discount Bond would constitute original issue discount. The "stated redemption price at maturity" means the sum of all payments to be made on the bonds less the amount of all periodic interest payments. Periodic interest payments are payments which are made during equal accrual periods (or during any unequal period if it is the initial or final period) and which are made during accrual periods which do not exceed one year.

Under existing law, any owner who has purchased such Original Issue Discount Bond in the initial public offering is entitled to exclude from gross income (as defined in section 61 of the Code) an amount of income with respect to such Original Issue Discount Bond equal to that portion of the amount of such original issue discount allocable to the accrual period. For a discussion of certain collateral federal tax consequences, see discussion set forth below.

In the event of the redemption, sale or other taxable disposition of such Original Issue Discount Bond prior to stated maturity, however, the amount realized by such owner in excess of the basis of such Original Issue Discount Bond in the hands of such owner (adjusted upward by the portion of the original issue discount allocable to the period for which such Original Issue Discount Bond was held by such initial owner) is includable in gross income.

Under existing law, the original issue discount on each Original Issue Discount Bond is accrued daily to the stated maturity thereof (in amounts calculated as described below for each six-month period ending on the date before the semiannual anniversary dates of the date of the Bonds and ratably within each such six-month period) and the accrued amount is added to an initial owner's basis for such Original Issue Discount Bond for purposes of determining the amount of gain or loss recognized by such owner upon the redemption, sale or other disposition thereof. The amount to be added to basis for each accrual period is equal to (a) the sum of the issue price and the amount of original issue discount accrued in prior periods multiplied by the yield to stated maturity (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period) less (b) the amounts payable as current interest during such accrual period on such Original Issue Discount Bond.

The federal income tax consequences of the purchase, ownership, redemption, sale or other disposition of Original Issue Discount Bonds which are not purchased in the initial offering at the initial offering price may be determined according to rules which differ from those described above. All owners of Original Issue Discount Bonds should consult their own tax advisors with respect to the determination for federal, state and local income tax purposes of the treatment of interest accrued upon redemption, sale or other disposition of such Original Issue Discount Bonds and with respect to the federal, state, local and foreign tax consequences of the purchase, ownership, redemption, sale or other disposition of such Original Issue Discount Bonds.

## **Collateral Federal Income Tax Consequences**

The following discussion is a summary of certain collateral federal income tax consequences resulting from the purchase, ownership or disposition of the Bonds. This discussion is based on existing statutes, regulations, published rulings and court decisions, all of which are subject to change or modification, retroactively.

The following discussion is applicable to investors, other than those who are subject to special provisions of the Code, such as financial institutions, property and casualty insurance companies, life insurance companies, owners of interests in a FASIT, individual recipients of Social Security or Railroad Retirement benefits, individuals allowed an earned income credit, certain S corporations with Subchapter C earnings and profits and taxpayers who may be deemed to have incurred or continued indebtedness to purchase tax-exempt obligations.

**THE DISCUSSION CONTAINED HEREIN MAY NOT BE EXHAUSTIVE. INVESTORS, INCLUDING THOSE WHO ARE SUBJECT TO SPECIAL PROVISIONS OF THE CODE, SHOULD CONSULT THEIR OWN TAX ADVISORS AS TO THE TAX TREATMENT WHICH MAY BE ANTICIPATED TO RESULT FROM THE PURCHASE, OWNERSHIP AND DISPOSITION OF TAX-EXEMPT OBLIGATIONS BEFORE DETERMINING WHETHER TO PURCHASE THE BONDS.**

Interest on the Bonds will be includable as an adjustment for "adjusted current earnings" to calculate the alternative minimum tax imposed on corporations by section 55 of the Code. Section 55 of the Code imposes a tax equal to 20 percent for corporations, or 26 percent for noncorporate taxpayers (28 percent for taxable income exceeding \$175,000), of the taxpayer's "alternative minimum taxable income," if the amount of such alternative minimum tax is greater than the taxpayer's regular income tax for the taxable year.

Interest on the Bonds may be subject to the "branch profits tax" imposed by section 884 of the Code on the effectively connected earnings and profits of a foreign corporation doing business in the United States.

Under section 6012 of the Code, holders of tax-exempt obligations, such as the Bonds, may be required to disclose interest received or accrued during each taxable year on their returns of federal income taxation.

Section 1276 of the Code provides for ordinary income tax treatment of gain recognized upon the disposition of a tax-exempt obligation, such as the Bonds, if such obligation was acquired at a "market discount" and if the fixed maturity of such obligation is equal to, or exceeds, one year from the date of issue. Such treatment applies to "market discount bonds" to the extent such gain does not exceed the accrued market discount of such bonds; although for this purpose, a de minimis amount of market discount is ignored. A "market discount bond" is one which is acquired by the holder at a purchase price which is less than the stated redemption price at maturity or, in the case of a bond issued at an original issue discount, the "revised issue price" (i.e., the issue price plus accrued original issue discount). The "accrued market discount" is the amount which bears the same ratio to the market discount as the number of days during which

the holder holds the obligation bears to the number of days between the acquisition date and the final maturity date.

### **State, Local and Foreign Taxes**

Investors should consult their own tax advisors concerning the tax implications of the purchase, ownership or disposition of the Bonds under applicable state or local laws. Foreign investors should also consult their own tax advisors regarding the tax consequences unique to investors who are not United States persons.

### **Qualified Tax-Exempt Obligations for Financial Institutions**

Section 265(a) of the Code provides, in pertinent part, that interest paid or incurred by a taxpayer, including a "financial institution," on indebtedness incurred or continued to purchase or carry tax-exempt obligations is not deductible by such taxpayer in determining taxable income. Section 265(c) of the Code provides an exception to the disallowance of such deduction for any interest expense paid or incurred on indebtedness of a taxpayer which is a "financial institution" allocable to tax-exempt obligations, other than "private activity bonds," which are designated by an "qualified small issuer" as "qualified tax-exempt obligations." A "qualified small issuer" is any governmental issuer (together with any subordinate issuers) who issues no more than \$10,000,000 of tax-exempt obligations during the calendar year. Section 265(b)(5) of the Code defines the term "financial institution" as referring to any corporation described in section 585(a)(2) of the Code, or any person accepting deposits from the public in the ordinary course of such person's trade or business which is subject to federal or state supervision as a financial institution.

The District has designated the Bonds as "qualified tax-exempt obligations" within the meaning of section 265(b) of the Code. In furtherance of that designation, the District will covenant to take such action which would assure or to refrain from such action which would adversely affect the treatment of the Bonds as "qualified tax-exempt obligations." Potential purchasers should be aware that if the issue price to the public (or, in the case of discount bonds, the amount payable at maturity) exceeds \$10,000,000, then such obligations might fail to satisfy the \$10,000,000 limitation and the obligations would not be "qualified tax-exempt obligations."

### **CONTINUING DISCLOSURE OF INFORMATION**

In the Bond Order, the District has made the following agreement for the benefit of the Registered and Beneficial Owners. The District is required to observe the agreement for so long as it remains obligated to advance funds to pay the Bonds. Under the agreement, the District will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified material events, to certain information vendors. This information will be available to securities brokers and others who subscribe to receive the information from the vendors.

## **Annual Reports**

The District will provide certain updated financial information and operating data to certain information vendors annually. The information to be updated includes all quantitative financial information and operating data with respect to the District of the general type included in this Official Statement and in Appendix A. The District will update and provide this information within six months after the end of each fiscal year ending in or after 2004. The District will provide the updated information to each nationally recognized municipal securities information repository ("NRMSIR") and to any state information depository ("SID") that is designated by the State of Texas and approved by the staff of the United States Securities and Exchange Commission (the "SEC").

*The District may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by SEC Rule 15c2-12 (the "Rule").* The updated information will include audited financial statements, if it is completed by the required time. If audited financial statements are not available by the required time, the District will provide unaudited financial statements and audited financial statements when the audit report becomes available. Any such financial statements will be prepared in accordance with the accounting principles described in Appendix A or such other accounting principles as the District may be required to employ from time to time pursuant to state law or regulation.

The Districts current fiscal year end is September 30, 2005. Accordingly, it must provide updated information by March 30, in each year, commencing after 2004 unless the District changes its fiscal year. If the District changes its fiscal year, it will notify each NRMSIR and any SID of the change.

## **Material Event Notices**

The District will also provide timely notices of certain events to certain information vendors. The District will provide notice of any of the following events with respect to the Bonds, if such event is material to a decision to purchase or sell Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions or events affecting the tax-exempt status of the Bonds; (7) modifications to rights of Registered Owners; (8) Bond calls; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds; and (11) rating changes. In addition, the District will provide timely notice of any failure by the District to provide information, data, or financial statements in accordance with its agreement described above under "Annual Reports". The District will provide each notice described in this paragraph to any SID and to either each NRMSIR or the Municipal Securities Rulemaking Board ("MSRB").

## **Availability of Information from NRMSIRs and SID**

The District has agreed to provide the foregoing information only to NRMSIRs and any SID. The information will be available to Registered Owners only if the Registered Owners comply

with the procedures and pay the charges established by such information vendors or obtain the information through securities brokers who do so.

The Municipal Advisory Council of Texas has been designated by the State of Texas and the SEC as a SID. The address of the Municipal Advisory Council is 600 West 8th Street, P.O. Box 2177, Austin, Texas 78768-2177, and its telephone number is 512/476-6947.

### **Limitations and Amendments**

The District has agreed to update information and to provide notices of material events only as described above. The District has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition, or prospects or agreed to update any information that is provided, except as described above. The District makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell Bonds at any future date. The District disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its continuing disclosure agreement or from any statement made pursuant to its agreement, although Registered Owners may seek a writ of mandamus to compel the District to comply with its agreement.

This continuing disclosure agreement may be amended by the District from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the District, but only if (1) the provisions, as so amended, would have permitted an underwriter to purchase or sell Bonds in the primary offering of the Bonds in compliance with the Rule, taking into account any amendments or interpretations of the Rule since such offering as well as such changed circumstances and (2) either (a) the holders of a majority in aggregate principal amount (or any greater amount required by any other provision of this Order that authorizes such an amendment) of the outstanding Bonds consent to such amendment or (b) a person that is unaffiliated with the District (such as nationally recognized bond counsel) determined that such amendment will not materially impair the interest of the Holders and beneficial owners of the Bonds. The District may also amend or repeal the provisions of this continuing disclosure agreement if the SEC amends or repeals the applicable provision of the Rule or a court of final jurisdiction enters judgment that such provisions of the Rule are invalid, but only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling Bonds in the primary offering of the Bonds.

### **Compliance with Prior Undertakings**

The District has previously made a continuing disclosure agreement in connection with certain of its outstanding bonds and is in compliance with all material provisions of such continuing disclosure agreement.

### **UNDERWRITER**

The Preliminary Official Statement was compiled and edited under the supervision of Caprock

Securities, Inc. (the "Underwriter"). The fees paid the Underwriter for services rendered in connection with the issuance and sale of the Bonds are based on a percentage of the Bonds actually issued, sold and delivered, and therefore such fees are contingent on the sale and delivery of the Bonds.

## **VERIFICATION OF ESCROW SUFFICIENCY AND YIELDS**

McGladrey & Pullen, L.L.P., a firm of independent certified public accountants, upon delivery of the Bonds, will deliver to the District its verification report indicating that I ha performed certain procedures to verify, in accordance with standards established by the American Institute of Certified Public Accountants, the arithmetical accuracy of the information provided by the District's Financial Advisor relating to the sufficiency of the anticipated receipts from the Escrowed Securities, together with the initial cash deposit, if any, to pay, when due, the principal, interest, and early rcdemption premium requirements, if any, on the Refunded Bonds, and the "Yield" on the Escrowed and on the Bonds.

## **OFFICIAL STATEMENT**

### **Preparation**

The information in this Official Statement was compiled and edited by the Underwriter. In addition to compiling and editing such information, the Underwriter has obtained the information set forth herein under the captions indicated from the following sources:

"THE DISTRICT"- Blanton Development Company ("Blanton") and Schroeder Engineering Company ("Engineer"); "THE DEVELOPERS" - Blanton; "UTILITY AGREEMENT WITH THE CITY OF AUSTIN", and "THE BONDS"- SOURCE OF AND SECURITY FOR PAYMENT - Dissolution of the District"; - Potts & Reilly L.L.P. ("General Counsel"); "THE SYSTEM"- Engineer, "UNLIMITED TAX BONDS AUTHORIZED BUT UNISSUED" - Records of the District ("Records"), "FINANCIAL STATEMENT" - Travis Central Appraisal District; "ESTIMATED OVERLAPPING DEBT STATEMENT" - Municipal Advisory Council of Texas; "TAX DATA" and "WATER AND SEWER OPERATIONS" - Audits, Records and Tax Assessor/Collector; "MANAGEMENT" - District Directors; "DEBT SERVICE REQUIREMENTS" - Underwriter; "THE BONDS," "TAXING PROCEDURES," "CONTINUING DISCLOSURE OF INFORMATION", and "TAX MATTERS" - Delgado, Acosta, Braden & Jones, P.C.

In approving this Official Statement, the District has relied upon the following experts:

**The Engineer:** The information contained in the Official Statement relating to engineering matters and to the description of the System and, in particular, that information included in the section entitled "THE SYSTEM," has been provided by Schroeder Engineering Company, and has been included in reliance upon the authority of said firm as experts in the field of civil engineering.

**Appraisal District:** The information contained in this Official Statement relating to the certified

assessed valuation of property in the District and, in particular, such information contained in the section captioned "FINANCIAL STATEMENT," has been provided by the Travis Central Appraisal District, in reliance upon their authority as experts in the field of appraising and tax assessing.

Tax Assessor/Collector: The information contained in this Official Statement relating to tax collection rates has been provided by Nelda Wells Spears in reliance upon her authority as an expert in the field of tax assessing and collecting.

Auditor: The Districts financial statements are audited by Maxwell Locke & Ritter LLP, Certified Public Accountants, and excerpts of the District's Audited Financial Statements as of September 30, 2003 have been included as Appendix A in reliance upon such firm's authority as an expert in the field of accounting.

### **Updating the Official Statement During Underwriting Period**

If, subsequent to the date of the Official Statement to and including the date the Underwriter is no longer required to provide an Official Statement to potential customers who request the same pursuant to Rule 15c2-12 of the federal Securities Exchange Act of 1934 (the "Rule") (the earlier of (i) 90 days from the "end of the underwriting period" (as defined in the Rule) and (ii) the time when the Official Statement is available to any person from a nationally recognized repository but in no case less than 25 days after the "end of the underwriting period"), the District learns or is notified by the Underwriter of any adverse event which causes any of the key representations in the Official Statement to be materially misleading, the District will promptly prepare and supply to the Underwriter a supplement to the Official Statement which corrects such representation to the reasonable satisfaction of the Underwriter, unless the Underwriter elects to terminate its obligation to purchase the Bonds as described below. See "DELIVERY OF THE BONDS AND ACCOMPANYING DOCUMENTS - Delivery." The obligation of the District to update or change the Official Statement will terminate when the District delivers the Bonds to the Underwriter (the "end of the underwriting period" within the meaning of the Rule), unless the Underwriter provides written notice to the District that less than all of the Bonds have been sold to ultimate customers on or before such date, in which case the obligation to update or change the Official Statement will extend for an additional period of time of 25 days after all of the Bonds have been sold to ultimate customers. In the event the Underwriter provides written notice to the District that less than all of the Bonds have been sold to ultimate customers, the Underwriter agrees to notify the District in writing following the occurrence of the "end of the underwriting period" as defined in the Rule.

### **Certification as to Official Statement**

The District, acting by and through its Board of Directors in its official capacity in reliance upon the experts listed above, hereby certifies, as of the date hereof, that to the best of its knowledge and belief, the information, statements and descriptions pertaining to the District and its affairs herein contain no untrue statements of a material fact and do not omit to state any material fact necessary to make the statements herein, in light of the circumstances under which they were

made, not misleading. The information, description and statements concerning entities other than the District, including particularly other governmental entities, have been obtained from sources believed to be reliable, but the District has made no independent investigation or verification of such matters and makes no representation as to the accuracy or completeness thereof. All changes in the affairs of the District and other matters and makes no representation as to the accuracy or completeness thereof. All changes in the affairs of the District and other matters described in the Official Statement subsequent to the delivery of the Bonds and all information with respect to the resale of the Bonds are the responsibility of the Underwriter.

### **Official Statement “Deemed Final”**

For purposes of compliance with Rule 15c(2)-12 of the Securities Exchange Commission, this document, as the same may be supplemented or corrected by the District from time-to-time, may be stated as an Official Statement with respect to the Bonds described herein "deemed final" by the District as of the date hereof (or of any such supplement or correction) except for the omission of certain information referred to in the succeeding paragraph.

The Official Statement, when further supplemented by adding information specifying the interest rates and certain other information relating to the Bonds, shall constitute a "FINAL OFFICIAL STATEMENT" of the District with respect to the Bonds, as that term is defined in Rule 15c(2)-12.

### **Annual Audits**

Under Texas Law, the District must keep its fiscal records in accordance with generally accepted accounting principles, must have its financial accounts and records audited by a certified or permitted public accountant within 120 days after the close of each fiscal year of the District, and must file each audit report with the Commission within 135 days after the close of the fiscal year. Copies of each audit report must also be filed in the office of the District. The District's fiscal records and audit reports are available for public inspection during regular business hours, and the District is required by law to provide a copy of the District's audit reports to any Registered Owner or other member of the public within a reasonable time on request, upon payment of reasonable charges.

This Official Statement was approved by the Board of Directors of the Northwest Austin Municipal Utility District No.1, as of the date shown on the first page hereof.

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Don Zimmerman  
President, Board of Directors  
Northwest Austin Municipal Utility District  
No.1

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Karen Temborius  
Secretary, Board of Directors  
Northwest Austin Municipal Utility District



## MEMORANDUM

**TO:** Mayor and Council Members

**FROM:** Dennis Waley, City Treasurer

**DATE:** November 15, 2004

**SUBJECT:** **Refunding Bond Issue Approval Request – Northwest Austin MUD 1  
– Item 61 on November 18, 2004**

On Friday, November 12, 2004, a telephone request for assistance regarding Council consideration and approval of a proposed Northwest Austin MUD refunding bond issuance was received by City of Austin Treasury Office staff. Consultants representing the district requested that an agenda item be placed on the Council's November 18, 2004 agenda.

The district's consultants were informed that inclusion on the November 18 agenda would not be possible, but that every effort to expedite the request for approval on an upcoming Council agenda would be made, provided that the district's proposal met the City's standard financial criteria for approving district bond refundings. Information on the City's MUD bond refunding approval criteria and process was communicated to the district's consultants over the phone and via email. These requirements, the most important of which are summarized below, are applied to all municipal utility districts prior to requesting refunding bond issue approval by the City Council.

MUD refunding bond proposals are required to result in a 4.25% net present value savings. In other words the present value of the debt service requirements that will be avoided due to the refinancing of the debt has to equal at least 4.25%. This is also the criteria used to determine the feasibility of City of Austin refunding opportunities.

All districts are required to submit the following documentation prior to staff recommendation of City Council approval of a proposed bond refunding:

- 1) financial information demonstrating that the required savings criteria will be achieved by the proposed transaction,
- 2) a copy of the district's draft official statement for the bond issue, and

3) a copy of the district board of director's draft bond resolution.

Mayor and Council Members  
November 15, 2004  
Page 2

The district's submittals are reviewed by both the City's financial advisor and bond counsel to insure that the proposed bond issue is properly structured and that legal requirements related to the proposed refunding bond issue are met.

Language requiring City Council approval of all District bond issuances is included in all City of Austin MUD Consent Agreements and Chapter 25-9 of the City Code so that this standardized review process may be carried out for all MUD bond issues. This process is designed to allow for sufficient scrutiny of the proposed bond issues by the City's own financial consultants prior to recommending approval to the City Council.

Given that the required submittals from Northwest Austin MUD were not received until after 2:00 pm on Monday, November 15, it is respectfully requested that approval of the proposed bond refunding be postponed until the required submittals can be properly reviewed.

If you have any questions, please contact me at 974-7883.

Dennis Waley  
City Treasurer

xc: Toby Futrell, City Manager  
John Stephens, Chief Financial Officer  
Vickie Schubert, Deputy Chief Financial Officer

## **RESOLUTION NO. 04**

**WHEREAS**, Northwest Austin Municipal Utility District No. 1 (the "District") is a conservation and reclamation district, a body corporate and politic and governmental agency of the State of Texas, created on or about August 11, 1988, by an order of the Texas Water Commission, now the "Texas Commission on Environmental Quality" (the "Commission") and the District operates under Chapters 54 and 49, Texas Water Code (the "Act"); and

**WHEREAS**, on May 14, 1987, the City of Austin (the "City") granted its consent to the creation of the District and thereafter the City, the District, Texas American Bank-Fort Worth, N.A., Nash Phillips/Copus, Inc. and Plateau Utilities, Inc. entered into a certain "Agreement Concerning Creation and Operation of Northwest Austin Municipal Utility District No. 1" which, as amended (the "Consent Agreement"), sets forth revised terms and conditions for creation and operation of the District; and

**WHEREAS**, the creation of the District was confirmed by an election held within the District on May 8, 1988; and

**WHEREAS**, the Consent Agreement sets forth terms relating to the issuance of bonds by the District; and

**WHEREAS**, subject to the terms of the Consent Agreement, the District is authorized by the Act to purchase, construct, acquire, own, operate, maintain, repair, improve, or extend, inside or outside its boundaries, any and all works, improvements, facilities, plants, equipment, and appliances necessary to accomplish the purposes of its creation; and

**WHEREAS**, under the Consent Agreement and its proposed "Order Authorizing the Issuance of \$2,900,000 Northwest Austin Municipal Utility District No. 1 Unlimited Tax Refunding Bonds, Series 2004" (the "Series 2004 District Refunding Bond Order"), the District proposes to issue bonds designated as its \$2,900,000 Northwest Austin Municipal Utility District No. 1 Unlimited Tax Refunding Bonds, Series 2004" (the "Series 2004 Refunding Bonds") to refund the District's Series 1997 Unlimited Tax Bonds and its Series 1999 Unlimited Tax Bonds; and

**WHEREAS**, the District has submitted to the City for review and approval a substantial draft of the Series 2004 District Refunding Bond Order and Preliminary Official Statement and requested City approval of its proposed issue of the Series 2004 Refunding Bonds; **NOW, THEREFORE**,

**BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF AUSTIN:**

The City Council approves the issuance by the District of the Series 2004 Refunding Bonds, in an amount not to exceed \$2,900,000, and the substantial draft of the Series 2004 District Refunding Bond Order and Preliminary Official Statement for the Series 2004 Refunding Bonds, attached respectively as Exhibits A and B, and incorporated by reference, provided that the Council's approval is subject to and effective only to the extent that the District's issuance of the Series 2004 Refunding Bonds complies with the following requirements:

1. the principal amount of the Series 2004 Refunding Bonds does not exceed \$2,900,000;
2. the Series 2004 Refunding Bonds provide a minimum net present value savings of at least 4.25%;

3. the District secures the debt service payment on the bonds by obtaining a municipal bond insurance policy from a nationally recognized company, acceptable to the Director of the City's Department of Financial and Administrative Services, that issues insurance policies in the ordinary course of its business to guarantee the payment of debt service on municipal bonds;

4. the debt service on the Series 2004 Refunding Bonds maturing on and after September 1, 2005, has been structured to produce level annual savings;

5. the final maturity of the Series 2004 Refunding Bonds does not extend beyond September 1, 2020;

6. the City's Financial Advisor confirms to the City that the requirements of Items 1 through 5 above have been fully satisfied; and

7. the final offering documents shall be subject to final review and approval by the Director of the City's Department of Financial and Administrative Services or his designee.

**ADOPTED:** \_\_\_\_\_, 2004      **ATTEST:** \_\_\_\_\_  
Shirley A. Brown  
City Clerk